

LIFESCHOOL OF DALLAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2018

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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LIFESCHOOL OF DALLAS
CERTIFICATE OF BOARD
AUGUST 31, 2018

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, 2018, at a meeting of the governing body the charter holder on the 23rd day of January, 2019.

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
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, 2018 and 2017, 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, 2018 and 2017, 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 9, 2019, 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, PC
Denton, Texas

January 9, 2019

**General-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-1

**STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 18,581,330	\$ 15,749,931
Cash and cash equivalents - restricted	1,900,411	2,639,299
Due from TEA and other governments	4,425,573	3,720,868
Prepaid expenses	218,310	507,283
Other receivables	15,120	6,785
Total Current Assets	<u>25,140,744</u>	<u>22,624,166</u>
Property and Equipment		
Land	5,642,748	5,642,748
Building and improvements	86,513,574	83,141,410
Furniture and equipment	5,310,895	4,793,342
Vehicles	394,215	394,215
Assets purchased under capital lease	990,302	708,252
Construction in progress	328,807	571,746
Less accumulated depreciation	<u>(21,257,556)</u>	<u>(17,768,158)</u>
Total Property and Equipment	<u>77,922,985</u>	<u>77,483,555</u>
Other Assets		
Capitalized Debt Issuance Costs	1,661,594	1,531,878
Other Assets	130,262	67,143
	<u>1,791,856</u>	<u>1,599,021</u>
Total Assets	<u>\$ 104,855,585</u>	<u>\$ 101,706,742</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 638,843	\$ 766,941
Accrued wages	336,191	282,557
Due to state government	1,712	246
Due to student groups	50,616	39,561
Unearned revenues	6,686	-
Accrued employee benefits	129,261	66,143
Accrued interest expense	188,523	181,847
Current portion of capital leases payable	65,550	-
Current portion of bonds payable	1,495,000	1,440,000
Total Current Liabilities	<u>2,912,382</u>	<u>2,777,295</u>
Long Term Debt (net of current portions)		
Capital leases payable	141,265	-
Loans payable	2,318,382	-
Bonds payable	93,255,813	95,006,185
Total Long-Term Debt	<u>95,715,460</u>	<u>95,006,185</u>
Total Liabilities	<u>98,627,842</u>	<u>97,783,480</u>
Net Assets		
Unrestricted	1,215,907	1,179,397
Temporarily restricted	5,011,836	2,743,865
Total Net Assets	<u>6,227,743</u>	<u>3,923,262</u>
Total Liabilities and Net Assets	<u>\$ 104,855,585</u>	<u>\$ 101,706,742</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, 2018 AND 2017**

	2018		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Revenues			
Local Support:			
Contributions	\$ 50,852	\$ -	\$ 50,852
Food Service Activity	-	665,704	665,704
Athletic Activities	280,434	-	280,434
Rent	124,847	-	124,847
Interest	272,767	-	272,767
Other Revenues	668,616	-	668,616
Total Local Support	<u>1,397,516</u>	<u>665,704</u>	<u>2,063,220</u>
State Program Revenues:			
Foundation School Program	-	51,258,232	51,258,232
Instructional Materials Fund	-	401,035	401,035
Food Service	-	13,621	13,621
Total State Program Revenues	<u>-</u>	<u>51,672,888</u>	<u>51,672,888</u>
Federal Program Revenues:			
IDEA Part B, Formula	-	714,054	714,054
ESEA Title I Part A Improving Basic Programs	-	1,290,144	1,290,144
ESEA Title II Part A Teacher and Principal Training	-	178,547	178,547
ESEA Title IV Part A Student Support	-	30,430	30,430
National School Breakfast and Lunch Program	-	1,797,334	1,797,334
Title III Part A - English Language Acquisition and Enhancement	-	49,383	49,383
School Health and Related Services	-	262,507	262,507
Teacher Incentive Fund	-	863,969	863,969
Career & Technical - Basic Grant	-	57,168	57,168
Summer School LEP	-	1,187	1,187
Total Federal Program Revenues	<u>-</u>	<u>5,244,723</u>	<u>5,244,723</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>55,315,344</u>	<u>(55,315,344)</u>	<u>-</u>
Total Revenues	<u>56,712,860</u>	<u>2,267,971</u>	<u>58,980,831</u>
Expenses			
Program Services:			
Instruction and Instructional-Related Services	28,751,185	-	28,751,185
Instructional and School Leadership	3,629,867	-	3,629,867
Support Services:			
Administrative Support Services	3,004,409	-	3,004,409
Support Services - Non-Student Based	10,047,699	-	10,047,699
Support Services - Student (Pupil)	6,945,584	-	6,945,584
Ancillary Services	440,724	-	440,724
Debt Service	3,856,882	-	3,856,882
Total Expenses	<u>56,676,350</u>	<u>-</u>	<u>56,676,350</u>
Change in Net Assets	<u>36,510</u>	<u>2,267,971</u>	<u>2,304,481</u>
Net Assets, Beginning of Year	<u>1,179,397</u>	<u>2,743,865</u>	<u>3,923,262</u>
Net Assets, End of Year	<u>\$ 1,215,907</u>	<u>\$ 5,011,836</u>	<u>\$ 6,227,743</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, 2018 AND 2017**

	2017		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 90,703	\$ -	\$ 90,703
Food Service Activity	-	677,771	677,771
Athletic Activities	241,141	-	241,141
Rent	63,796	-	63,796
Interest	100,701	-	100,701
Other Revenues	688,935	-	688,935
Total Local Support	1,185,276	677,771	1,863,047
State Program Revenues:			
Foundation School Program	-	46,916,656	46,916,656
Instructional Materials Fund	-	344,191	344,191
Food Service	-	13,827	13,827
Total State Program Revenues	-	47,274,674	47,274,674
Federal Program Revenues:			
IDEA Part B, Formula	-	673,422	673,422
ESEA Title I Part A Improving Basic Programs	-	1,095,736	1,095,736
ESEA Title II Part A Teacher and Principal Training	-	204,216	204,216
National School Breakfast and Lunch Program	-	1,576,965	1,576,965
Title III Part A - English Language Acquisition and Enhancement	-	39,957	39,957
Teacher Incentive Fund	-	1,065,044	1,065,044
Career & Technical - Basic Grant	-	60,662	60,662
Summer School LEP	-	1,165	1,165
Total Federal Program Revenues	-	4,717,167	4,717,167
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	52,360,373	(52,360,373)	-
Total Revenues	53,545,649	309,239	53,854,888
Expenses			
Program Services:			
Instruction and Instructional-Related Services	26,474,669	-	26,474,669
Instructional and School Leadership	3,276,800	-	3,276,800
Support Services:			
Administrative Support Services	3,166,542	-	3,166,542
Support Services - Non-Student Based	9,931,213	-	9,931,213
Support Services - Student (Pupil)	6,381,079	-	6,381,079
Ancillary Services	363,904	-	363,904
Debt Service	3,872,909	-	3,872,909
Total Expenses	53,467,116	-	53,467,116
Change in Net Assets	78,533	309,239	387,772
Net Assets, Beginning of Year	1,100,864	2,434,626	3,535,490
Net Assets, End of Year	\$ 1,179,397	\$ 2,743,865	\$ 3,923,262

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, 2018 AND 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Change in Net Assets	\$ 2,304,481	\$ 387,772
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	3,489,398	3,343,694
Amortization of Capitalized Debt Issuance Costs	83,284	59,617
(Increase) Decrease in Due from TEA and Other Governments	(704,705)	1,514,028
(Increase) Decrease in Prepaid Expenses	288,973	(20,505)
(Increase) Decrease in Other Receivables	(8,335)	67,750
(Increase) Decrease in Other Assets	(63,119)	(55,697)
Increase (Decrease) in Accounts Payable	(128,098)	(1,292,136)
Increase (Decrease) in Accrued Wages	53,634	(288,935)
Increase (Decrease) in Due to State Government	1,466	(247)
Increase (Decrease) in Due to Student Groups	11,055	3,450
Increase (Decrease) in Unearned Revenues	6,686	(2,879)
Increase (Decrease) in Accrued Employee Benefits	63,118	55,697
Increase (Decrease) in Accrued Interest Expense	6,676	(4,895)
	<u>5,404,514</u>	<u>3,766,714</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(3,744,184)	(706,979)
Construction in Progress	(184,644)	(770,457)
	<u>(3,928,828)</u>	<u>(1,477,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Capital Lease	206,815	-
Proceeds from Loans	2,318,382	-
Debt Issuance Costs	(213,000)	-
Principal Payments on Debt	(1,695,372)	(1,706,880)
	<u>616,825</u>	<u>(1,706,880)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	2,092,511	582,398
Cash and Cash Equivalents, Beginning of Year	<u>18,389,230</u>	<u>17,806,832</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$1,900,411 and \$2,639,299 at August 31, 2018 and 2017, respectively)	<u>\$ 20,481,741</u>	<u>\$ 18,389,230</u>
Interest Paid During the Years Ended August 31, 2018 and 2017	\$ 3,911,916	\$ 3,958,931
Income Taxes Paid During the Years Ended August 31, 2018 and 2017	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, 2018 AND 2017

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, 2018 AND 2017

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, 2018 AND 2017

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, 2018, the carrying amount of the charter holder's deposits (cash demand accounts and interest-bearing accounts included in cash and cash equivalents) was \$20,472,721, and the bank balance was \$20,953,624. The corporation's cash deposits at August 31, 2018, and during the year ended August 31, 2018, 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 \$18,187,154 of fully collateralized investments in TexPool accounted for as cash equivalents.

At August 31, 2017, the carrying amount of the charter holder's deposits (cash demand accounts and interest-bearing accounts included in cash and cash equivalents) was \$18,380,210, and the bank balance was \$19,016,623. The corporation's cash deposits at August 31, 2017, and during the year ended August 31, 2017, 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 \$15,742,595 of fully collateralized investments in TexPool accounted for as cash equivalents.

The corporation has restricted cash and cash equivalents of \$1,900,411 and \$2,639,299 as of August 31, 2018 and 2017, respectively. These amounts are deposited with Region's Bank in short-term cash sweep accounts. As of August 31, 2018, \$894,706 of bonds payable proceeds are restricted for future construction projects. The remaining \$1,005,705 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, 2018 AND 2017

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, 2018:

- a. Depository: InterBank
- b. At the date of the highest combined cash balance, District cash balances were collateralized by a \$3,425,000 irrevocable letter of credit issued in favor of the District by InterBank and held on behalf of the District by the Federal Home Loan Bank of Topeka.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$2,906,337 and occurred during the month of June 2018.
- 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, 2018 and 2017, 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, 2018 AND 2017

As of August 31, 2017 (the most recent information available), TRS had total net plan assets of \$147.3 billion and accumulated benefit obligation of \$179.3 billion, leaving a net pension liability of \$32.0 billion. TRS is 82.17% funded. There is not a collective-bargaining agreement that covers the plan.

State law provides for the following contribution rates for 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Employees (members)	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

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, a contribution surcharge for certain employees who have retired from TRS, and an additional 1.5% of covered employee salaries.

Contributions made by the Corporation and employees for 2018 and 2017 are shown below. Contributions made each year were equal to the required contributions.

	<u>2018</u>	<u>2017</u>
Employees (members)	\$2,207,590	\$2,132,691
Employers	\$ 569,263	\$ 529,159

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, 2018 AND 2017

B. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. The State of Texas and active school employee contribution rates were 1.0% and 0.65% of school payroll, respectively, with the employer contributing a percentage of payroll set at 0.55% for fiscal year 2017. In fiscal year 2018, the State of Texas contribution rate increased to 1.25% and the employer contribution rate increased to 0.75%, while the active employee contribution rate remained 0.65%. For the years ended August 31, 2018 and 2017, the State's contributions to TRS Care were \$342,182 and \$266,459, respectively. The active member contributions were \$186,357 and \$180,036, respectively. The charter school's contributions were \$231,282 and \$162,859, respectively, which equaled the required contributions each year.

6. HEALTH CARE COVERAGE

During the years ended August 31, 2018 and 2017, full-time employees of the charter school were covered by a health insurance plan (the Plan). For the years ended August 31, 2018 and 2017, the charter school contributed a minimum of \$480 and \$431, 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, 2018 and 2017, 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, 2018 AND 2017

9. PROPERTY AND EQUIPMENT

Property and Equipment at August 31, 2018, were as follows:

	Balance <u>9/1/2017</u>	Additions	Deletions	Balance <u>8/31/2018</u>
Land	\$ 5,642,748	\$ -	\$ -	\$ 5,642,748
Buildings and Improvements	83,141,410	3,372,164	-	86,513,574
Furniture and Equipment	4,793,342	517,553	-	5,310,895
Vehicles	394,215	-	-	394,215
Capital Lease	708,252	282,050	-	990,302
Construction in Progress	571,746	184,644	(427,583)	328,807
Accumulated Depreciation	<u>(17,768,158)</u>	<u>(3,489,398)</u>	-	<u>(21,257,556)</u>
	<u>\$ 77,483,555</u>	<u>\$ 867,013</u>	<u>\$ (427,583)</u>	<u>\$ 77,922,985</u>

Property and Equipment at August 31, 2017, were as follows:

	Balance <u>9/1/2016</u>	Additions	Deletions	Balance <u>8/31/2017</u>
Land	\$ 5,642,748	\$ -	\$ -	\$ 5,642,748
Buildings and Improvements	82,330,459	895,654	(84,703)	83,141,410
Furniture and Equipment	4,379,830	425,675	(12,163)	4,793,342
Vehicles	394,215	-	-	394,215
Capital Lease	708,252	-	-	708,252
Construction in Progress	318,773	770,457	(517,484)	571,746
Accumulated Depreciation	<u>(14,424,464)</u>	<u>(3,415,958)</u>	<u>72,264</u>	<u>(17,768,158)</u>
	<u>\$ 79,349,813</u>	<u>\$(1,324,172)</u>	<u>\$ (542,086)</u>	<u>\$ 77,483,555</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, 2018 and 2017, the charter holder earned revenue of \$51,258,232 and \$46,916,656, respectively, from the Texas Education Agency (TEA). This constitutes approximately 86.91% and 87.12%, 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, 2018 AND 2017

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended August 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Foundation School Program	\$3,620,098	\$1,517,050
Campus Activity Funds	268,035	270,775
ESEA Title I Part A, Improving Basic Programs	216,701	220,396
National School Lunch & Breakfast Program	<u>907,002</u>	<u>735,644</u>
	<u>\$5,011,836</u>	<u>\$2,743,865</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.

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, 2018.

\$34,575,000 in defeased bonds were outstanding at August 31, 2018.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

A summary of bonds payable for the year ended August 31, 2018 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 09/01/17	Issued/ (Retired)	Amounts Outstanding 08/31/18	Amount due within one year
Education Revenue and Refunding Bonds – Series 2014A	2.00%-5.00%	85,645,000	83,100,000	(1,440,000)	81,660,000	1,495,000
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>89,615,000</u>	<u>(1,440,000)</u>	<u>88,175,000</u>	<u>1,495,000</u>
Bond Premium (Discount)			<u>6,831,185</u>	<u>(255,372)</u>	<u>6,575,813</u>	<u>-</u>
Total			<u>\$ 96,446,185</u>	<u>\$ (1,695,372)</u>	<u>\$ 94,750,813</u>	<u>\$ 1,495,000</u>

Debt service requirements are as follows:

Years ending 31-Aug	Principal	Interest	Requirements
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	1,730,000	3,889,123	5,619,123
2023	1,815,000	3,802,623	5,617,623
2024-2028	10,550,000	17,555,617	28,105,617
2029-2033	19,970,000	14,642,117	34,612,117
2034-2038	19,415,000	9,226,750	28,641,750
2039-2043	24,475,000	4,162,850	28,637,850
2044	5,505,000	220,200	5,725,200
Thereafter	-	-	-
	<u>\$ 88,175,000</u>	<u>\$ 65,645,901</u>	<u>\$ 153,820,901</u>

The Corporation received a Qualified School Construction Bond subsidy of \$277,233 during the year ending August 31, 2018 and \$276,343 during the year ending August 31, 2017 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, 2018 AND 2017

13. NOTE PAYABLE

In May 2018, the Corporation entered into a line of credit note payable with Regions Commercial Equipment Finance, LLC. The line of credit allows for borrowings of up to \$11.0 million. The Corporation had borrowed \$2,318,382 under the line of credit as of August 31, 2018. Interest accrues on the outstanding balance at the LIBOR rate plus 1.66% (3.77375% as of August 31, 2018). Interest only is payable every six months; on June 30 and December 30 of each year. The note matures June 30, 2021 at which time all principal and accrued interest is due. There are no principal payments due under the note in fiscal years ended August 31, 2019 and 2020, and \$2,318,382 is due in fiscal year ended August 31, 2021.

14. CAPITAL LEASES

The Corporation is obligated under a capital lease to pay for the purchase of 3 school buses. The following schedule lists the property leased:

<u>Capital Lease Details</u>	<u>Interest Rate</u>	<u>Date of Agreement</u>	<u>Original Property Value</u>	<u>Property Purchased</u>
Merceded-Benz Financial	4.313%	9/19/2017	\$ 282,050	3 Buses

Future minimum payments under noncancellable operating leases as of August 31, 2018 are as follows:

2018-19	\$ 75,235
2019-20	75,235
2020-21	75,235
Thereafter	<u>-</u>
Total future minimum lease payments	225,705
Less amount representing interest	<u>(18,890)</u>
Present value of net minimum lease payments	<u>\$ 206,815</u>

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

15. OPERATING LEASES

The Corporation leased facilities through four operating leases expiring between 2018 and 2028. The minimum monthly payment at August 31, 2018 was \$222,544. Rent expense was \$2,847,363 and \$2,322,438, respectively, for the years ended August 31, 2018 and 2017.

Future minimum payments under noncancellable operating leases as of August 31, 2018 are as follows:

2018-19	\$ 2,670,532
2019-20	2,673,093
2020-21	2,675,713
2021-22	2,678,381
2022-23	2,681,099
Thereafter	<u>10,565,771</u>
Total	<u>\$ 23,944,589</u>

16. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Corporation through January 9, 2019, the date of financial statement issuance, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements.

17. 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.

**Specific-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS

Exhibit B-1

**STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2018 AND 2017**

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 18,581,330	\$ 15,749,931
Cash and cash equivalents - restricted	1,900,411	2,639,299
Due from TEA and other governments	4,425,573	3,720,868
Prepaid expenses	218,310	507,283
Other receivables	15,120	6,785
Total Current Assets	25,140,744	22,624,166
Property and Equipment		
Land	5,642,748	5,642,748
Building and improvements	86,513,574	83,141,410
Furniture and equipment	5,310,895	4,793,342
Vehicles	394,215	394,215
Assets purchased under capital lease	990,302	708,252
Construction in progress	328,807	571,746
Less accumulated depreciation	(21,257,556)	(17,768,158)
Total Property and Equipment	77,922,985	77,483,555
Other Assets		
Capitalized Debt Issuance Costs	1,661,594	1,531,878
Other Assets	130,262	67,143
	1,791,856	1,599,021
Total Assets	\$ 104,855,585	\$ 101,706,742
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 638,843	\$ 766,941
Accrued wages	336,191	282,557
Due to state government	1,712	246
Due to student groups	50,616	39,561
Unearned Revenues	6,686	-
Accrued employee benefits	129,261	66,143
Accrued interest expense	188,523	181,847
Current portion of capital leases payable	65,550	-
Current portion of bonds payable	1,495,000	1,440,000
Total Current Liabilities	2,912,382	2,777,295
Long Term Debt (net of current portions)		
Capital leases payable	141,265	-
Loans payable	2,318,382	-
Bonds payable	93,255,813	95,006,185
Total Long-Term Debt	95,715,460	95,006,185
Total Liabilities	98,627,842	97,783,480
Net Assets		
Unrestricted	1,215,907	1,179,397
Temporarily restricted	5,011,836	2,743,865
Total Net Assets	6,227,743	3,923,262
Total Liabilities and Net Assets	\$ 104,855,585	\$ 101,706,742

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, 2018 AND 2017

	2018		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 50,852	\$ -	\$ 50,852
Food Service Activity	-	665,704	665,704
Athletic Activities	280,434	-	280,434
Rent	124,847	-	124,847
Interest	272,767	-	272,767
Other Revenues	668,616	-	668,616
Total Local Support	1,397,516	665,704	2,063,220
State Program Revenues:			
Foundation School Program	-	51,258,232	51,258,232
Instructional Materials Fund	-	401,035	401,035
Food Service	-	13,621	13,621
Total State Program Revenues	-	51,672,888	51,672,888
Federal Program Revenues:			
IDEA Part B, Formula	-	714,054	714,054
ESEA Title I Part A Improving Basic Programs	-	1,290,144	1,290,144
ESEA Title II Part A Teacher and Principal Training	-	178,547	178,547
ESEA Title IV Part A Student Support	-	30,430	30,430
National School Breakfast and Lunch Program	-	1,797,334	1,797,334
Title III Part A - English Language Acquisition and Enhancement	-	49,383	49,383
School Health and Related Services	-	262,507	262,507
Teacher Incentive Fund	-	863,969	863,969
Career & Technical - Basic Grant	-	57,168	57,168
Summer School LEP	-	1,187	1,187
Total Federal Program Revenues	-	5,244,723	5,244,723
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	55,315,344	(55,315,344)	-
Total Revenues	56,712,860	2,267,971	58,980,831
Expenses			
Program Services:			
Instruction and Instructional-Related Services	28,751,185	-	28,751,185
Instructional and School Leadership	3,629,867	-	3,629,867
Support Services:			
Administrative Support Services	3,004,409	-	3,004,409
Support Services - Non-Student Based	10,047,699	-	10,047,699
Support Services - Student (Pupil)	6,945,584	-	6,945,584
Ancillary Services	440,724	-	440,724
Debt Service	3,856,882	-	3,856,882
Total Expenses	56,676,350	-	56,676,350
Change in Net Assets	36,510	2,267,971	2,304,481
Net Assets, Beginning of Year	1,179,397	2,743,865	3,923,262
Net Assets, End of Year	\$ 1,215,907	\$ 5,011,836	\$ 6,227,743

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, 2018 AND 2017

	2017		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 90,703	\$ -	\$ 90,703
Food Service Activity	-	677,771	677,771
Athletic Activities	241,141	-	241,141
Rent	63,796	-	63,796
Interest	100,701	-	100,701
Other Revenues	688,935	-	688,935
Total Local Support	1,185,276	677,771	1,863,047
State Program Revenues:			
Foundation School Program	-	46,916,656	46,916,656
Instructional Materials Fund	-	344,191	344,191
Food Service	-	13,827	13,827
Total State Program Revenues	-	47,274,674	47,274,674
Federal Program Revenues:			
IDEA Part B, Formula	-	673,422	673,422
ESEA Title I Part A Improving Basic Programs	-	1,095,736	1,095,736
ESEA Title II Part A Teacher and Principal Training	-	204,216	204,216
National School Breakfast and Lunch Program	-	1,576,965	1,576,965
Title III Part A - English Language Acquisition and Enhancement	-	39,957	39,957
Teacher Incentive Fund	-	1,065,044	1,065,044
Career & Technical - Basic Grant	-	60,662	60,662
Summer School LEP	-	1,165	1,165
Total Federal Program Revenues	-	4,717,167	4,717,167
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	52,360,373	(52,360,373)	-
Total Revenues	53,545,649	309,239	53,854,888
Expenses			
Program Services:			
Instruction and Instructional-Related Services	26,474,669	-	26,474,669
Instructional and School Leadership	3,276,800	-	3,276,800
Support Services:			
Administrative Support Services	3,166,542	-	3,166,542
Support Services - Non-Student Based	9,931,213	-	9,931,213
Support Services - Student (Pupil)	6,381,079	-	6,381,079
Ancillary Services	363,904	-	363,904
Debt Service	3,872,909	-	3,872,909
Total Expenses	53,467,116	-	53,467,116
Change in Net Assets	78,533	309,239	387,772
Net Assets, Beginning of Year	1,100,864	2,434,626	3,535,490
Net Assets, End of Year	\$ 1,179,397	\$ 2,743,865	\$ 3,923,262

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, 2018 AND 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Change in Net Assets	\$ 2,304,481	\$ 387,772
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	3,489,398	3,343,694
Amortization of Capitalized Debt Issuance Costs	83,284	59,617
(Increase) Decrease in Due from TEA and Other Governments	(704,705)	1,514,028
(Increase) Decrease in Prepaid Expenses	288,973	(20,505)
(Increase) Decrease in Other Receivables	(8,335)	67,750
(Increase) Decrease in Other Assets	(63,119)	(55,697)
Increase (Decrease) in Accounts Payable	(128,098)	(1,292,136)
Increase (Decrease) in Accrued Wages	53,634	(288,935)
Increase (Decrease) in Due to State Government	1,466	(247)
Increase (Decrease) in Due to Student Groups	11,055	3,450
Increase (Decrease) in Unearned Revenues	6,686	(2,879)
Increase (Decrease) in Accrued Employee Benefits	63,118	55,697
Increase (Decrease) in Accrued Interest Expense	6,676	(4,895)
	<u>5,404,514</u>	<u>3,766,714</u>
Net Cash Provided (Used) by Operating Activities		
	<u>5,404,514</u>	<u>3,766,714</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(3,744,184)	(706,979)
Construction in Progress	(184,644)	(770,457)
	<u>(3,928,828)</u>	<u>(1,477,436)</u>
Net Cash Provided (Used) by Investing Activities		
	<u>(3,928,828)</u>	<u>(1,477,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Capital Lease	206,815	-
Proceeds from Loans	2,318,382	-
Debt Issuance Costs	(213,000)	-
Principal Payments on Debt	(1,695,372)	(1,706,880)
	<u>616,825</u>	<u>(1,706,880)</u>
Net Cash Provided (Used) by Financing Activities		
	<u>616,825</u>	<u>(1,706,880)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	2,092,511	582,398
Cash and Cash Equivalents, Beginning of Year	<u>18,389,230</u>	<u>17,806,832</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$1,900,411 and \$2,639,299 at August 31, 2018 and 2017, respectively)	<u>\$ 20,481,741</u>	<u>\$ 18,389,230</u>
Interest Paid During the Years Ended August 31, 2018 and 2017	\$ 3,911,916	\$ 3,958,931
Income Taxes Paid During the Years Ended August 31, 2018 and 2017	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, 2018 AND 2017

Expenses	2018	2017
6100 Payroll Costs	\$ 34,831,857	\$ 32,445,244
6200 Professional and Contracted Services	8,333,539	8,063,287
6300 Supplies and Materials	4,996,287	4,844,214
6400 Other Operating Costs	4,657,785	4,241,462
6500 Debt	3,856,882	3,872,909
Total Expenses	<u>\$ 56,676,350</u>	<u>\$ 53,467,116</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, 2018

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 5,642,748	\$ -
1520 Buildings and Improvements	55,597	86,457,977	-
1531 Vehicles	-	394,215	-
1539 Furniture and Equipment	4,750	4,348,085	849,474
1549 Furniture and Equipment	-	16,768	91,818
1559 Capital Lease	-	990,302	-
1580 Construction in Progress	-	328,807	-
1570 Less Accumulated Depreciation	(53,649)	(20,531,457)	(672,450)
Total Property and Equipment	<u>\$ 6,698</u>	<u>\$ 77,647,445</u>	<u>\$ 268,842</u>

Note: Accumulated depreciation of \$20,531,457 above on capital assets acquired with state funds includes \$428,024 accumulated depreciation on assets recorded under capital leases.

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

LIFESCHOOL OF DALLAS

Exhibit E-1

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 160,000	\$ 369,260	\$ 643,248	\$ 273,988
5750 Cocurricular and Enterprising Activities	806,166	1,352,631	1,419,972	67,341
Total Local Support	966,166	1,721,891	2,063,220	341,329
State Program Revenues:				
5810 Foundation School Program Act Revenues	50,980,369	50,859,161	51,258,232	399,071
5820 State Program Revenues Distributed by TEA	508,000	508,000	414,656	(93,344)
Total State Program Revenues	51,488,369	51,367,161	51,672,888	305,727
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	3,772,217	4,661,852	4,118,247	(543,605)
5930 Federal Revenues Distributed by Other State of Texas Government Agencies (Other than TEA)	-	130,000	262,507	132,507
5940 Federal Revenues Distributed Directly from the Federal Government	906,100	1,087,596	863,969	(223,627)
Total Federal Program Revenues	4,678,317	5,879,448	5,244,723	(634,725)
Total Revenues	57,132,852	58,968,500	58,980,831	12,331
Expenses				
11 Instruction	26,079,755	27,635,348	26,836,521	798,827
12 Instructional Resources & Media Services	120,760	146,649	122,364	24,285
13 Curriculum & Instructional Staff Development	1,762,545	2,102,806	1,792,300	310,506
21 Instructional Leadership	712,470	833,991	736,053	97,938
23 School leadership	2,886,363	3,131,744	2,893,813	237,931
31 Guidance, Counseling, & Evaluation Services	1,634,104	1,802,599	1,696,460	106,139
33 Health Services	450,528	502,692	435,531	67,161
34 Student Transportation	67,770	97,770	59,054	38,716
35 Food Services	2,312,418	2,662,968	2,322,660	340,308
36 Cocurricular/Extracurricular Activities	1,796,544	2,682,651	2,431,880	250,771
41 General Administration	3,235,684	3,697,015	3,004,409	692,606
51 Plant Maintenance & Operations	7,612,469	8,255,004	7,466,834	788,170
52 Security & Monitoring Services	850,340	949,897	886,220	63,677
53 Data Processing Services	1,923,539	1,990,403	1,694,645	295,758
61 Community Services	17,826	37,670	13,598	24,072
71 Debt Service	4,891,200	4,900,319	3,856,882	1,043,437
81 Fundraising	433,775	498,775	427,126	71,649
Total Expenses	56,788,090	61,928,301	56,676,350	5,251,951
Change in Net Assets	344,762	(2,959,801)	2,304,481	5,264,282
Net Assets, Beginning of Year	3,923,262	3,923,262	3,923,262	-
Net Assets, End of Year	\$ 4,268,024	\$ 963,461	\$ 6,227,743	\$ 5,264,282

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

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

To the Board of Directors
LifeSchool of Dallas
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, 2018 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 9, 2019.

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
Denton, Texas

January 9, 2019

Members:
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH 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 *U.S. Office of Management and Budget (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, 2018. 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, 2018.

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, PC
Denton, Texas

January 9, 2019

LIFESCHOOL OF DALLAS (THE CHARTER HOLDING)

Exhibit F-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

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

Did the audit disclose findings which are required to be reported in accordance with 2 CFR 200.516(a)? ___ Yes X No

Identification of major programs:

CFDA 84.027 - IDEA - Part B, Formula
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 \$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, 2018

CORRECTIVE ACTION PLAN:

None Required

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

No prior audit findings.

LIFESCHOOL OF DALLAS

Exhibit I-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018**

(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	\$ 863,969
Total Direct Program			<u>863,969</u>
<u>Passed Through Region 10 Education Service Center</u>			
Title III, Part A - English Language Acquisition	84.365A	18671001057950	49,383
Total CFDA Number 84.365A			<u>49,383</u>
Total Passed Through Region 10 Education Service Center			<u>49,383</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18610101057807	1,116,148
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101057807	86,173
ESEA, Title I, School Improvement	84.010A	18610123057807	87,823
Total CFDA Number 84.010A			<u>1,290,144</u>
*IDEA - Part B, Formula	84.027	186600010578076600	660,631
*IDEA - Part B, Formula	84.027	196600010578076600	53,423
Total Special Education Cluster (IDEA)			<u>714,054</u>
Career and Technical - Basic Grant	84.048	18420006057807	57,168
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	18694501057807	162,293
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	19694501057807	16,254
Total CFDA Number 84.367A			<u>178,547</u>
ESEA, Title IV, Part A - Student Support	84.424A	18680101057807	25,430
ESEA, Title IV, Part A - Student Support	84.424A	19680101057807	5,000
Total CFDA Number 84.424A			<u>30,430</u>
Summer School LEP	84.369A	69551702	1,187
Total Passed Through State Department of Education			<u>2,271,530</u>
TOTAL DEPARTMENT OF EDUCATION			\$ 3,184,882
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401801	\$ 258,118
*National School Lunch Program - Cash Assistance	10.555	71301801	1,346,737
*National School Lunch Program - Non-Cash Assistance	10.555	71301801	192,479
Total CFDA Number 10.555			<u>1,539,216</u>
Total Child Nutrition Cluster			<u>1,797,334</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,797,334</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ 1,797,334
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,982,216

*Clustered Programs

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

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.
4. School Health and Related Services (SHARS) payments of \$262,507 were also received and recorded in the General Fund. This payment is not considered a Federal award for purposes of The Schedule of Expenditures of Federal Awards, but is included in federal revenue on Exhibit A-2.