TLC ACADEMY

FINANCIAL AND COMPLIANCE REPORTS

AUGUST 31, 2016

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C E R T I F I C A T E   O F   B O A R D

TLC ACADEMY

TLC Academy	226-801
Name	Co. – Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Report of TLC Academy was reviewed and (✓) approved ( ) disapproved for the year ended August 31, 2016 at a meeting of the Board of Directors of the charter holder on the 9th day of January, 2017*.

Bridget Carr
Signature of Board Secretary

Raymond [illegible]
Signature of Board President

*The final draft of the audit report was presented for board approval on January 9, 2017, the date of the January 2017 board meeting, pending final clearance of the auditor's quality control process. Upon final clearance, the audit report was dated and released. No changes to the report were made subsequent to board approval.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
TLC Academy

Report on the Financial Statements

We have audited the accompanying financial statements of TLC Academy (a nonprofit organization), (the School) which comprise the statements 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.

To the Board of Directors of
TLC Academy

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TLC Academy 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 accompanying schedules of expenses, capital assets and budgetary comparison are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is 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 19, 2017, on our consideration of TLC Academy's 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 TLC Academy's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 19, 2017

TLC ACADEMY
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015

EXHIBIT A-1

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 677,585	$ 413,387
Investments	1,014,188	688,377
Accounts receivable	159,920	201,060
Inventory	31,910	24,156
Prepaid expenses	45,195	-
Total current assets	1,928,798	1,326,980
PROPERTY AND EQUIPMENT, NET	18,520,353	14,485,115
OTHER ASSETS		
Cash restricted by bond covenants	1,994,543	1,681,023
Unamortized bond issuance costs	753,130	772,382
Building deposit	37,000	47,000
Total other assets	2,784,673	2,500,405
TOTAL ASSETS	$ 23,233,824	$ 18,312,500
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 725,612	$ 286,439
Accounts payable, related party	8,472	16,587
Due to Parents in Action	34,469	53,571
Other accrued liabilities	846,526	782,709
Current portion of long-term debt, bonds and notes payable	684,595	455,086
Total current liabilities	2,299,674	1,594,392
LONG-TERM DEBT		
Deferred rent, long-term portion	252,828	-
Notes payable	1,685,833	581,538
Bonds payable	18,503,382	16,224,767
TOTAL LIABILITIES	22,741,717	18,400,697
NET ASSETS (DEFICIT)		
Temporarily restricted	294,627	286,523
Unrestricted	197,480	(374,720)
Total net assets (deficit)	492,107	(88,197)
TOTAL LIABILITIES AND NET ASSETS	$ 23,233,824	$ 18,312,500

The Notes to Financial Statements are
an integral part of these statements.

TLC ACADEMY
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2016 AND 2015

		2016		
REVENUES		**Unrestricted**	**Temporarily Restricted**	**Total**
Local Support:				
5740	Other revenues from local sources	$ 244,481	$ -	$ 244,481
5750	Revenues from cocurricular, enterprising services or activities	651,995	-	651,995
	Total local support	896,476	-	896,476
State Program Revenues:				
5810	Foundation school program	-	18,575,273	18,575,273
5820	State program revenues distributed by Texas Education Agency	-	345,140	345,140
	Total state program revenues	-	18,920,413	18,920,413
Federal Program Revenues:				
5920	Federal revenues distributed by Texas Education Agency	-	1,072,406	1,072,406
5930	Federal revenues distributed by other State of Texas government agencies	-	29,058	29,058
5940	Federal revenues distributed directly from the Federal Government	-	221,674	221,674
	Total federal program revenues	-	1,323,138	1,323,138
	Net assets released from restrictions: Restrictions satisfied by payments	20,235,447	(20,235,447)	-
	Total revenues	21,131,923	8,104	21,140,027
EXPENSES				
11	Instruction	8,818,454	-	8,818,454
12	Instructional resources and media services	54,170	-	54,170
13	Curriculum development and instructional staff development	113,278	-	113,278
21	Instructional leadership	113,736	-	113,736
23	School leadership	1,353,457	-	1,353,457
31	Guidance counseling and evaluation services	416,468	-	416,468
32	Social work services	2,381	-	2,381
33	Health services	210,732	-	210,732
34	Student (pupil) transportation	272,644	-	272,644
35	Food services	933,205	-	933,205
36	Cocurricular/extracurricular activities	814,630	-	814,630
41	General administration	1,066,076	-	1,066,076
51	Plant maintenance and operations	4,506,436	-	4,506,436
52	Security and monitoring services	33,940	-	33,940
53	Data processing services	305,548	-	305,548
61	Community services	57,742	-	57,742
71	Debt service	1,486,826	-	1,486,826
	Total expenses	20,559,723	-	20,559,723
CHANGE IN NET ASSETS (DEFICIT)		572,200	8,104	580,304
NET (DEFICIT) ASSETS, beginning of year		(374,720)	286,523	(88,197)
NET ASSETS (DEFICIT), end of year		$ 197,480	$ 294,627	$ 492,107

The Notes to Financial Statements are
an integral part of these statements.

2015		
Unrestricted	Temporarily Restricted	Total
$ 267,431	$ -	$ 267,431
561,025	-	561,025
828,456	-	828,456
-	13,554,680	13,554,680
-	90,772	90,772
-	13,645,452	13,645,452
-	736,259	736,259
-	-	-
-	220,485	220,485
-	956,744	956,744
14,575,503	(14,575,503)	-
15,403,959	26,693	15,430,652
6,438,417	-	6,438,417
49,820	-	49,820
39,636	-	39,636
106,389	-	106,389
1,079,401	-	1,079,401
330,822	-	330,822
-	-	-
194,867	-	194,867
231,741	-	231,741
687,089	-	687,089
678,864	-	678,864
869,897	-	869,897
3,160,679	-	3,160,679
34,946	-	34,946
197,718	-	197,718
108,134	-	108,134
1,401,524	-	1,401,524
15,609,944	-	15,609,944
(205,985)	26,693	(179,292)
(168,735)	259,830	91,095
$ (374,720)	$ 286,523	$ (88,197)

TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015

EXHIBIT A-3

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	$ 18,651,251	$ 13,536,557
Grant payments	1,288,300	797,723
Local revenues	896,476	828,456
Miscellaneous sources	345,140	90,772
Payments to vendors for goods and services rendered	(5,868,714)	(4,396,736)
Payments to school personnel for services rendered	(12,145,455)	(9,064,771)
Interest payments	(1,334,019)	(1,270,137)
Net cash provided by operating activities	1,832,979	521,864
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash transferred (to)/from investments	(325,811)	(498,007)
Cash restricted for construction	(85,743)	1,324,158
Additions to property and equipment	(1,397,372)	(1,735,120)
Net cash used in investing activities	(1,808,926)	(908,969)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash restricted for debt servicing	51,672	275,721
Proceeds from issuance of long-term debt	1,257,179	669,600
Payment of debt issuance costs	(93,308)	-
Change in compensating balances	(464,040)	37,039
Principal payments of long-term debt	(511,358)	(422,704)
Net cash provided by financing activities	240,145	559,656
NET INCREASE IN CASH	264,198	172,551
CASH AND CASH EQUIVALENTS, beginning of year	413,387	240,836
CASH AND CASH EQUIVALENTS, end of year	$ 677,585	$ 413,387

The Notes to Financial Statements are
an integral part of these statements.

TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015
(CONTINUED)

EXHIBIT A-3

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	$ 580,304	$ (179,292)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	732,609	666,242
Changes in assets and liabilities:		
Accounts receivable	41,140	(112,621)
Prepaid expenses	(45,195)	20,231
Inventory	(7,754)	(8,498)
Other long term assets	-	(47,000)
Accounts payable	234,332	(178,050)
Due to related party	(19,102)	-
Accrued liabilities	63,817	360,852
Deferred rent, long-term portion	252,828	-
Net cash provided by operating activities	$ 1,832,979	$ 521,864
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital asset additions included in accounts payable	$ 196,726	$ -
Capital assets additions acquired with debt	3,032,862	-
Capital asset additions reclassified from other long term assets	10,000	-
	$ 3,239,588	$ -

The Notes to Financial Statements are an integral part of these statements.

TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of TLC Academy were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

TLC Academy, (the School) is a Texas nonprofit corporation located in San Angelo, Texas. The School is a charter school for kindergarten through grade twelve which operates under an open enrollment Charter granted by the State of Texas Board of Education. The School is operated as a single charter school and does not conduct any other charter or non-charter activities. The School was granted this Charter on February 11, 2009, for a period of five years which expired on July 31, 2014 and renewed on June 30, 2014 for a period of ten years, expiring on July 31, 2024. The charter contract includes the option of renewal. The School became fully functional with student enrollment for the 2009-2010 school year which began in August 2009. In May 2013, the School was granted approval to amend the original charter to open two additional campuses in Midland and Arlington, Texas. The Midland, Arlington and Abilene campuses began classes in August 2013, 2014 and 2015, respectively.

The School is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the School and has the authority to make decisions, appoint the chief executive officer of the School, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the School. Since the School receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with United States of America generally accepted accounting principles. The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability System Resource Guide.

Financial statement presentation follows the recommendations of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Financial Statements. Under those provisions, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, the net assets of the School and the changes therein are classified and reported as follows:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Unrestricted

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by the actions of the 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 statements of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets are those net assets required to be maintained in perpetuity with only the income to be used, for the School's activities due to donor-imposed restrictions. As of August 31, 2016 and 2015, the School did not hold any assets that were designated as permanently restricted.

Contributions

The School accounts and reports its activities in accordance with ASC 958-605 *Revenue Recognition*, and ASC 958-205 *Presentation of Financial Statements*. In accordance with ASC 958, contributions are recorded 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.

Revenue Recognition

Capitation received, including base capitation, entitlements and special services are recognized in the period services are provided. Revenues from the state of Texas are earned based on reported school attendance. Public and private grants received are recognized in the period received and when the terms of the grants are met.

Cash and Cash Equivalents

The School considers all highly liquid investments purchased with original maturity dates of three months or less to be cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentration of Credit Risk

In the normal course of operations, the School maintains cash balances on deposit at a financial institution, which, at times, may exceed federally insured limits. The School's exposure to loss should the financial institution fail, is the excess on deposit over the insured amount covered by the Federal Deposit Insurance Corporation. The School has not experienced any losses on such accounts and management believes the School is not exposed to any significant risks on cash.

Investments

The School invests in a TexStar Investment Pool. Investments are reported at carrying value, which is cost plus accrued interest. The carrying value approximates fair value.

Accounts Receivable

The School's accounts receivable represent amounts primarily due from the state of Texas for state and federal funding related to grants.

Inventory

The School purchased uniform inventory for sale during the year. The inventory is comprised of uniform items to sell to students, as required by school dress code. Inventory is valued using the average cost method.

Capital Assets

Capital assets, which include buildings and improvements, vehicles and furniture and equipment, are reported in the statements of financial position. Capital assets are defined by the School as assets with a cost of more than $5,000. Such assets are recorded at historical cost at the date of acquisition and are depreciated over the estimated useful lives of the assets, which range from three to fifty 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. The School follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. Interest capitalized for the years ended August 31, 2016 and 2015 was $0 and $15,179, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Other Assets

Other assets consist of cash restricted by bond covenants and debt issuance costs. The School, under the terms of its loan agreement with a bank, has agreed to maintain a compensating balance equal to 100% of the outstanding loan balance. At August 31, 2016, $1,994,543 of the School's cash is restricted. Of that amount, $443,082 is restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with a bank and $184,594 is restricted for construction. The remaining $1,366,867 is restricted by bond agreements for debt service. At August 31, 2015, $1,681,023 of the School's cash is restricted. Of that amount, $163,636 is restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with a bank. The remaining $1,517,387 is restricted by bond agreements with $1,418,575 restricted for debt service and $98,812 for construction.

The costs related to the issuance of debt are capitalized and amortized to expense using the straight-line method, which approximates the effective interest method, over the maturity period of the related debt. During the year ended August 31, 2016, the School issued Education Revenue Bonds, Series 2016 which had associated debt issuance costs of $93,308. The total unamortized debt issuance cost was $753,130 and $772,382 at August 31, 2016 and 2015, respectively. Amortization expense was $112,560 and $112,562 for the years ended August 31, 2016 and 2015, respectively.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The School is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and, therefore, has made no provision for federal income taxes in the accompanying financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Uncertain Tax Positions

The Financial Accounting Standards Board requires the School recognize in its financial statements the financial effects of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or ligation processes, based upon the technical merits of the position. The standard provides guidance on measurement, classification, interest and penalties and disclosure. Tax positions taken related to the School's tax exempt status, unrelated business income and deductibility of expenses has been reviewed and management is of the opinion that material positions taken by the School would more likely than not be sustained upon examination. Accordingly, the School has not recorded an income tax liability for uncertain tax benefits. As of August 31, 2016, the School's tax years 2013 and thereafter remain subject to examination.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates fair value due to the short maturity of these instruments.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled $72,835 and $59,869 for the years ended August 31, 2016 and 2015, respectively.

Functional Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated on a specific identification basis, among the programs and supporting services benefited.

Subsequent Events

The School has evaluated all events and transactions that occurred after August 31, 2016 through January 19, 2017, the date these financial statements were available to be issued.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows.

The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The School is in the process of evaluating the changes and determining its effects on financial reporting.

In August 2016, the FASB has issued Accounting Standards Update (ASU) No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows.

The amendments provide guidance on the following eight specific cash flow issues:

- Debt Prepayment or Debt Extinguishment Costs;
- Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing;
- Contingent Consideration Payments Made after a Business Combination;
- Proceeds from the Settlement of Insurance Claims;
- Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies;
- Distributions Received from Equity Method Investees;
- Beneficial Interests in Securitization Transactions; and
- Separately Identifiable Cash Flows and Application of the Predominance Principle.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Pronouncements – Continued

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period.

The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The School is in the process of evaluating the changes and determining its effects on financial reporting.

In August 2016, the FASB has issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows.

The ASU requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

These include qualitative and quantitative requirements in the following areas:

- Net Asset Classes;
- Investment Return;
- Expenses;
- Liquidity and Availability of Resources; and
- Presentation of Operating Cash Flows.

Not-for-profit organizations that will be affected include charities, foundations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The School is in the process of evaluating the changes and determining its effects on financial reporting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Pronouncements – Continued

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the Codification and creating Topic 842, Leases. This Update, along with IFRS 16, Leases, are the results of the FASB's and the International Accounting Standards Board's ("IASB's") efforts to meet that objective and improve financial reporting.

Under this standard, leases are classified as finance leases and operating leases. For finance leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position

2. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income.

3. Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position

2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis

3. Classify all cash payments within operating activities in the statement of cash flows.

For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Pronouncements – Continued

The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for any of the following:

1. A public business entity

2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market

3. An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission ("SEC").

For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The School is in the process of evaluating the changes and determining its effects on financial reporting.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements. ASU 2015-10 includes amendments related to differences between original guidance and the codification, clarification, reference corrections as well as simplification and minor improvements to existing standards, covering a wide array of topics within the body of generally accepted accounting principles. The amendments in ASU 2015-10 that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of ASU 2015-10. The School is in the process of evaluating the changes and determining its effects on financial reporting.

In April 2015, FASB issued ASU 2015-03, Interest (Topic 835) – Imputation of Interest (Subtopic 935-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The School is in the process of determining its effects on financial reporting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Pronouncements – Continued

In January 2015, FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20). Sub-topic 225-20 previously required that an entity separately classify, present and disclose extraordinary events and transactions. ASU 2015-01 changes this requirement by simplifying income statement presentation through the elimination of the concept of an extraordinary item. The amendments in ASU 2015-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The School does not believe that ASU 2015-01 will have a material impact on financial reporting.

NOTE 2. INVESTMENTS

The School has invested in a TexStar external investment pool. The fair value of the School's position in the pool is substantially the same as the value of the pool's shares. These investments are not exposed to credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Investments in external pools are excluded from disclosure requirements of concentration of credit risk and from disclosure of interest rate risk.

Investments owned by the School at August 31, 2016 and 2015 are shown below:

	Fair Value 2016	Fair Value 2015	Credit Risk
TexStar (external pool)	1,014,188	$ 688,377	AAAm - S & P

The TexStar investment is an investment pool and is measured at amortized cost or net asset value, i.e. fair value, and is not required to be reported using fair value level inputs.

NOTE 3. CAPITAL ASSETS

Capital assets at August 31, 2016 and 2015 were as follows:

	2016	2015
Land	$ 2,535,880	$ 2,265,880
Buildings and improvements	14,693,385	11,160,565
Vehicles	396,552	309,662
Furniture and equipment	1,970,534	1,891,038
Infrastructure	85,494	85,494
Construction in progress	667,754	-
	20,349,599	15,712,639
Less accumulated depreciation	1,829,246	1,227,524
Property and equipment, net	$ 18,520,353	$ 14,485,115

Capital assets acquired with public funds received by the School for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the schedule of capital assets for each individual charter school.

Depreciation expense was $601,720 ($128,410, $58,712, $3,890, $2,203 and $408,505 classified in functions 11, 34, 35, 41 and 51, respectively in the statement of activities on pages 5 and 6) for the year ended August 31, 2016. Depreciation expense was $535,354 ($126,449, $46,973, $3,890, $2,203 and $355,839 classified in functions 11, 34, 35, 41 and 51, respectively in the statement of activities on pages 5 and 6, for the year ended August 31, 2015.

NOTE 4. LONG-TERM DEBT

Long-term debt at August 31, 2016 and 2015 consists of the following:

Revenue Bonds Payable

	2016	2015
Education Revenue Bonds, Series 2013A, in the amount of $10,670,000, at a rate of 7.0% - 7.15%, issued June 27, 2013, final maturity August 15, 2043.	$ 10,585,000	$ 10,630,000
Taxable Education Revenue Bonds, Series 2013B, in the amount of $1,385,000, at a rate of 8.5%, issued June 27, 2013, final maturity August 15, 2020.	1,000,000	1,200,000
Taxable Education Revenue Bonds, Series 2013Q, in the amount of $5,115,000, at a rate of 7.5% - 7.75%, issued June 27, 2013, final maturity August 15, 2037.	5,115,000	5,115,000
Education Revenue Bonds, Series 2016, in the amount of $2,600,000, at a rate of 4.05%, issued April 27, 2016, final maturity March 15, 2026.	2,600,000	-
Total long-term debt, bonds payable	19,300,000	16,945,000
Less unamortized bond discount	456,907	475,233
Less current portion of long-term debt, bonds payable	339,711	245,000
Total long-term debt, bonds payable, net of current portion	$ 18,503,382	$ 16,224,767

In 2013, the School issued revenue bonds payable to provide funds for the purchase of land and buildings and for the construction necessary to prepare those buildings to operate as school campuses. These bonds constitute special obligations of the School and are secured by income from the school. The debt issuance costs for these bonds were $1,016,264. These costs were capitalized and are being amortized over the term of the bonds. The unamortized amount of $753,130 is recorded as other assets in the statement of financial position. The bond discount is amortized over the life of the bonds as interest expense. Bond discount amortization for the years ended August 31, 2016 and 2015 was $18,327 and $18,326, respectively.

NOTE 4. LONG-TERM DEBT – CONTINUED

Revenue Bonds Payable – Continued

On June 27, 2013, the School issued $10,670,000 of Tom Green County Cultural Education Facilities Finance Corporation Education Revenue Bonds, Series 2013A, with interest rates of 7.0% to 7.15%.

On June 27, 2013, the School issued $1,385,000 of Tom Green County Cultural Education Facilities Finance Corporation Taxable Education Revenue Bonds, Series 2013B, with an interest rate of 8.5%.

On June 27, 2013, the School issued $5,115,000 of Tom Green County Cultural Education Facilities Finance Corporation Taxable Education Revenue Bonds, Series 2013Q, with interest rates of 7.5% to 7.75%. These bonds are subject to an irrevocable election to be treated as “specified tax credit bonds” pursuant to Section 6431(f) of the IRS Code and therefore eligible for federal subsidy payments from the US Treasury equal to the lesser of (i) 100% of the interest payable on an interest payment date or (ii) the amount of interest which would have been payable under such bonds on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) with respect to the bonds. The federal subsidy that was used to pay for bond interest during fiscal years 2016 and 2015 was $221,674 and $220,485, respectively.

Debt covenants related to these bonds include maintaining a debt service ratio of 1.1 to 1.2, as well as maintaining an operating reserve of 45 days of expenses. As of August 31, 2016, the School is in compliance with the debt service coverage and the operating reserve requirement.

In April 27, 2016, the School issued $2,600,000 of Education Revenue Bonds, Series 2016, with and interest rates of 4.05%.

Future bonds payable maturities as of August 31, 2016 are as follows:

Year Ending September 30,	Principal	Interest	Total
2017	$ 339,711	$ 1,323,708	$ 1,663,419
2018	383,041	1,298,246	1,681,287
2019	406,880	1,270,507	1,677,387
2020	435,877	1,240,910	1,676,787
2021	470,039	1,209,097	1,679,136
2022-2043	17,264,452	16,473,663	33,738,115
Total	$ 19,300,000	$ 22,816,131	$ 42,116,131

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable

		2016		2015
Note payable to a bank with an interest rate of 5.0%, payable in monthly installments of $1,674. The note is secured by vehicles and matures on April 17, 2018.	$	31,782	$	49,799
Note payable to a bank with an interest rate of 3.0%, payable in monthly installments of $5,823. The note is secured by pledged securities with the bank and matures on September 11, 2016.		4,341		73,205
Note payable to a bank with an interest rate of 2.99%, payable in monthly installments of $1,904. The note is secured by vehicles and matures on January 1, 2019.		50,910		73,602
Note payable to a bank with an interst rate of 5.75%, payable in monthly installments of $2,959. The note is secured by portable buldings and matures on May 4, 2020.		119,283		147,104
Note payable to a bank with an interest reate of 3.0%, payable in monthly installments of $4,303. The note is secured by all present and future accounts held with the bank as well as property listed in the security agreement.		50,732		100,000
Mortgage payable to a church with an interest rate of 8.0%, payable in monthly installments of $4,368. The mortgage is secured by certain real property in Abilene, Texas and matures on and February 3, 2025.		322,499		347,914

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

	2016	2015
Note payable to a bank with an interest rate of 5.0%, payable in monthly installments of $1,020. The note is secured by three buses and matures on August 21, 2020.	44,086	-
Mortgage payable to the seller of certain real property which was acquired by the School in conjunction with the Series 2016 Education Bonds. The mortgage is secured by the real property, bears interest at a rate of 6.0% and is payable in monthly installments of $8,692. The mortgage matures on June 1, 2019.	1,019,322	-
Note payable to a bank with an interest rate of 3.0%, payable in monthly installments of $1,813. The note is secured by the School's savings account with the bank and matures on May 16, 2017.	16,094	-
Note payable to a bank with an interest rate of 3.0%, payable in monthly installments of $10,809. The note is secured by the School's savings August 17, 2019.	371,668	-
Total long-term debt, notes payable	2,030,717	791,624
Less current portion of long-term debt, notes payable	344,884	210,086
Total long-term debt, notes payable, net of current portion	$ 1,685,833	$ 581,538

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Future notes payable maturities as of August 31, 2016 are as follows:

Year Ending August 31,		
2017	$	344,884
2018		277,860
2019		1,141,151
2020		72,792
2021		37,984
Thereafter		156,046
Total	$	2,030,717

Total interest incurred on the bonds and notes payable for the years ended August 31, 2016 and 2015 was $1,355,938 and $1,285,316, respectively. Of the interest incurred, $0 and $15,179 was capitalized as part of a construction project financed with the bond proceeds for the years ended August 31, 2016 and 2015, respectively. The remaining interest expense is recorded in function 71 in the statement of activities.

NOTE 5. RELATED PARTY TRANSACTIONS

The School has two leases with an affiliate. The affiliate charges the School for facility repairs and maintenance, utilities, and liability insurance allocated based on the School's usage of those facilities and property at an allocated percentage of 100%. The amount the School paid the affiliate for those allocated costs in 2016 and 2015 was $79,962 and $1,600, respectively.

The leases mentioned above are classified as operating leases and provide for total minimum rentals of $6,209,600 through July 31, 2026. Facilities rent expense paid to the affiliate for the years ended August 31, 2016 and 2015, was $769,500 and $362,795, respectively.

In September 2014, the School entered into a leasing arrangement with the affiliate mentioned above whereby the affiliate leased certain school property when it was not in use for school purposes. The lease had a term of one year, expiring in August 2015, with the option to renew on a month to month basis thereafter. The month to month arrangement was terminated in September 2015. Revenues for this leasing arrangement totaled $4,500 and $60,000 for the years ended August 31, 2016 and 2015, respectively, and are included in the accompanying statement of activities as local support.

NOTE 5. RELATED PARTY TRANSACTIONS – CONTINUED

Accounts payable to the affiliate as of August 31, 2016 and 2015 was $8,472 and $16,587, respectively.

The School also purchases materials and services from the locally owned businesses of three board members. Transactions from the three board members amounted to $6,557 and $42,951 for the years ended August 31, 2016 and 2015, respectively.

NOTE 6. OPERATING LEASES

The School leases modular buildings, other facilities and musical instruments under operating lease agreements expiring in various years through 2026.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2016 for each of the next four years are as follows:

Year Ending August 31,	Related Party	Other	Total
2017	$ 802,260	$ 593,182	$ 1,395,442
2018	765,260	631,107	1,396,367
2019	580,260	607,188	1,187,448
2020	580,260	343,188	923,448
2021	580,260	354,595	934,855
Thereafter	2,901,300	1,845,128	4,746,428
	$ 6,209,600	$ 4,374,388	$ 10,583,988

Rental expense related to operating leases for the years ended August 31, 2016 and 2015, was $1,593,026 and $811,859, respectively.

NOTE 7. OTHER OPERATING LEASING ARRANGEMENTS

In July 2014, the School entered into a leasing arrangement with a church, whereby the School leased certain portions of the Arlington campus to the church during periods in which the campus was not in use for school operations. The lease included an initial term of one year, with the option to renew on a month to month basis thereafter. Rental revenue related to this lease for the years ended August 31, 2016 and 2015 was $42,000 and $42,000, respectively, and is included in local support on the accompanying statements of activities.

In August 2014, the School entered into a leasing arrangement with a second church, whereby the School leased certain portions of the Arlington campus to the church during periods in which the campus was not in use for school operations. The lease included an initial term of one year, with the option to renew on a month to month basis thereafter. Rental revenue related to this lease for the years ended August 31, 2016 and 2015 was $54,000 and $54,000, respectively, and is included in local support on the accompanying statements of activities.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2016 and 2015 consisted of the following:

	2016	2015
National School Lunch Program	$ 39,289	$ 39,851
National School Breakfast Program	6,910	4,601
Title I, Part A	67,609	60,195
Title II, Part A	7,806	6,308
IDEA B Formula	33,309	20,249
IDEA B Preschool	-	197
PCS Start-Up Grant	139,704	155,122
Total	$ 294,627	$ 286,523

NOTE 9. DEFINED PENSION PLAN OBLIGATION

Plan Description

The School participates in the Teacher Retirement System of Texas (TRS or the Plan), a public employee retirement system. TRS is a cost-sharing, multiple-employer defined benefit pension plan, with one exception; all risks and costs are not shared by the School, but are the liability of the state of Texas.

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, 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 plan. That report may be obtained by writing the TRS Communications Department, 1000 Red River, Austin, Texas 78701-2698 or by calling the TRS Communications Department at (800) 223-8778 or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publications Heading.

Statement No. 68 of the Governmental Accounting Standards Board (GASB 68) paragraph .110 defines a cost-sharing pension plan as a multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the Plan. Based on this definition, the Plan is analogous with a multiemployer plan as defined by the Financial FASB ASC Subtopic 715 Compensation – Retirement Benefits – Multiemployer Plans with the defining characteristic being the pooling of assets which may be used to satisfy the pension obligation of any employee of any employer that participates in the Plan.

Risks associated with participation in a multiemployer plans may be substantially less than sponsorship of a single-employer plan or participation in a multiple-employer plan. One of the benefits of multiemployer plans is that the unfunded benefit obligation of one participating employer is shared by all employers in the plan. Conversely, in a single-employer plan any unfunded liability is the liability of the sponsor.

In the case of TRS, risks are reduced further due to the Plan's special funding situation. As described above, the risks and costs, including substantially all of the individual schools contributions, associated with TRS are assumed by the state of Texas. Additionally, charter schools are legally separate entities from the state and TRS and there is no withdrawal penalty for leaving the TRS system.

NOTE 9. DEFINED PENSION PLAN OBLIGATION – CONTINUED

Plan Description – Continued

Total Plan assets, accumulated benefit obligations and percent funded are reported by TRS in its consolidated annual financial report. For the Plan years ended August 31, 2016 and 2015, TRS reported the following:

Plan Name: Teacher Retirement System of Texas

Plan Employee Identification Number N/A

	2016	2015
Total plan assets	$ 152,925,647,396	$ 149,780,062,000
Accumulated benefit obligations	$ 171,797,150,487	$ 163,887,375,000
Percent funded	78.00%	78.43%

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (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; (2) A state statute prohibits benefit improvements or contribution reductions 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.

For the Plan years ended August 31, 2016 and 2015, state law provided for the following contribution rates:

	2016	2015
Member	7.2%	6.7%
Non-employer entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

NOTE 9. DEFINED PENSION PLAN OBLIGATION – CONTINUED

Funding Policy – Continued

Charter schools are not required to make an employer contribution, however, beginning on September 1, 2014, charter schools are required to contribute 1.5% of the member's annual contribution to TRS which represents a Non-Old Age, Survivor and Disability Income surcharge. Employees were required to contribute at the rate above. Total required contributions to the Plan, by TLCA employees as well as the required surcharge were as follows for the years ended August 31, 2016 and 2015:

	2016	2015
TLCA employee contributions	$ 754,243	$ 520,765
Employer surcharge	157,130	126,261
Total contributions*	$ 911,373	$ 647,026

*TLCA's contributions were less than 5% of total plan contributions from all entitles of $6.10B and $5.54B for the Plan years ended August 31, 2016 and 2015, respectively.

NOTE 10. HEALTH CARE COVERAGE

During the years ended August 31, 2016 and 2015, employees of the School were covered by a Health Insurance Plan (the Plan). The School contributed $246 and $246 per full-time employee per month to the Plan in 2016 and 2015, respectively. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 11. SHARED SERVICES ARRANGEMENTS

The School participates in shared service arrangements for several Federal grant programs with other school districts. Education Service Center Region XV (Region XV) acts as the coordinator and fiscal agent for these arrangements. The fiscal agent manager is responsible for all financial actives of the individual shared service arrangements. Participation in these arrangements does not entitle the School to joint ownership in any capital assets acquired by the fiscal agent. Charter schools are required to account for, and disclose revenues and expenditures related to these programs. For the years ended August 31, 2016 and 2015, the School participated in a shared service arrangement for the following Federal grant programs: Migrant Education – State Grant Program (MEP), English Language Acquisition Grants (LEP or Title III, Part A), and Career and Technical Education – Basic Grants to States (Perkins IV) (CTE). Revenues related to these programs are included under the caption Federal revenues distributed by Texas Education Agency and the offsetting expenditures are classified in function 11 in the accompanying statement of activities.

NOTE 12. COMMITMENT AND CONTINGENCIES

Grants

The School received 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 TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the School's funds may be subject to refund if so determined by the TEA or the grantor agency.

SUPPLEMENTAL INFORMATION

TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2016

EXHIBIT C-1

	Program Services											
	General School Operations	**ESEA Title I**	**MEP**	**IDEA - B**	**IDEA Part B Preschool**	**Food Service Fund**	**Carl D. Perkins**	**ESEA Title II**	**PCS Start-Up**	**Title III LEP**	**Title IV 21st Century**	**Total All Funds**
EXPENSES:												
6100 Payroll costs	$ 11,747,806	$ 225,679	$ -	$ 180,506	$ -	$ 59,747	$ -	$ 39,098	$ -	$ -	$ 516	$ 12,253,352
6200 Professional and contracted services	3,391,165	7,114	-	12,109	-	848,153	-	12,184	-	-	-	4,270,725
6300 Supplies and materials	1,391,517	-	-	1,776	1,800	19,012	-	748	-	-	-	1,414,853
6400 Other operating expenses	1,056,756	8,100	607	3,975	-	5,777	17,411	16,042	15,417	9,882	-	1,133,967
6500 Debt service	1,486,826	-	-	-	-	-	-	-	-	-	-	1,486,826
Total expenses	$ 19,074,070	$ 240,893	$ 607	$ 198,366	$ 1,800	$ 932,689	$ 17,411	$ 68,072	$ 15,417	$ 9,882	$ 516	$ 20,559,723

TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2015
(CONTINUED)

EXHIBIT C-1

		Program Services									
		General School Operations	ESEA Title I	IDEA - B	IDEA Part B Preschool	Food Service Fund	Carl D. Perkins	ESEA Title II	PCS Start-Up	Title III LEP	Total All Funds
EXPENSES:											
6100	Payroll costs	$ 9,058,206	$ 141,288	$ 129,771	$ -	$ 51,930	$ -	$ 36,811	$ -	$ -	$ 9,418,006
6200	Professional and contracted services	2,126,132	8,458	-	-	618,207	-	8,623	-	-	2,761,420
6300	Supplies and materials	1,018,109	38,859	5,015	395	7,365	-	-	-	-	1,069,743
6400	Other operating expenses	899,562	11,682	1,233	483	9,587	12,214	3,290	18,654	2,546	959,251
6500	Debt service	1,401,524	-	-	-	-	-	-	-	-	1,401,524
	Total expenses	$ 14,503,533	$ 200,287	$ 136,019	$ 878	$ 687,089	$ 12,214	$ 48,724	$ 18,654	$ 2,546	$ 15,609,944

TLC ACADEMY
SCHEDULE OF CAPITAL ASSETS
AUGUST 31, 2016

EXHIBIT D-1

		Ownership Interest		
		Local	**State**	**Federal**
1510	Land and improvements	$ -	$ 2,535,880	$ -
1520	Buildings and improvements	-	14,470,267	223,118
1531	Vehicles	-	396,552	-
1540	Furniture and equipment	93,421	1,745,915	131,198
1590	Infrastructure	-	85,494	-
1580	Construction in progress	-	667,754	-
	Total property and equipment	$ 93,421	$ 19,901,862	$ 354,316

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2016

EXHIBIT E-1

		Original Budget	Final Budget	Actual Amounts	Variance from Final Budget
REVENUES					
Local Support:					
5740 & 5760	Other revenues from local sources	$ 183,641	$ 236,641	$ 244,481	$ 7,840
5750	Revenues from cocurricular, enterprising services or activities	238,300	649,300	651,995	2,695
	Total local support revenues	421,941	885,941	896,476	10,535
State Program Revenues:					
5810	Foundation School Program	18,245,825	18,572,825	18,575,273	2,448
5820	State program revenues distributed by Texas Education Agency	2,900	341,900	345,140	3,240
	Total state program revenues	18,248,725	18,914,725	18,920,413	5,688
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	864,446	1,090,988	1,072,406	(18,582)
5930	Federal revenues distributed by other State of Texas government agencies	4,000	29,000	29,058	58
5940	Federal revenues distributed directly from the Federal Government	220,000	220,000	221,674	1,674
	Total federal program revenues	1,088,446	1,339,988	1,323,138	(16,850)
TOTAL REVENUES		$ 19,759,112	$ 21,140,654	$ 21,140,027	$ (627)

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2016
(CONTINUED)

EXHIBIT E-1

		Original Budget	Final Budget	Actual Amounts	Variance from Final Budget
EXPENSES					
11	Instruction	$ 8,560,512	$ 8,966,542	$ 8,818,454	$ 148,088
12	Instructional resources and media services	60,498	54,698	54,170	528
13	Curriculum development and instructional staff development	82,693	113,458	113,278	180
21	Instructional leadership	111,682	113,556	113,736	(180)
23	School leadership	1,209,809	1,358,189	1,353,457	4,732
31	Guidance, counseling and evaluation services	371,470	406,446	416,468	(10,022)
32	Social work services	-	2,300	2,381	(81)
33	Health services	209,714	212,714	210,732	1,982
34	Student (pupil) transportation	326,735	274,735	272,644	2,091
35	Food services	715,589	927,089	933,205	(6,116)
36	Cocurricular/extracurricular activities	403,513	785,565	814,630	(29,065)
41	General administration	1,031,163	1,031,763	1,066,076	(34,313)
51	Plant maintenance and operations	4,078,355	4,381,920	4,506,436	(124,516)
52	Security and monitoring services	43,861	35,861	33,940	1,921
53	Data processing services	395,822	297,122	305,548	(8,426)
61	Community services	65,010	58,010	57,742	268
71	Debt service	1,659,686	1,414,686	1,486,826	(72,140)
	Total expenses	19,326,112	20,434,654	20,559,723	(125,069)
CHANGE IN NET ASSETS		433,000	706,000	580,304	(125,696)
NET DEFICIT, beginning of year		(88,197)	(88,197)	(88,197)	-
NET ASSETS, end of year		$ 344,803	$ 617,803	$ 492,107	$ (125,696)

None of the variances between final budgeted amounts and actual expenditures exceeded 10% of the final budget for the year ended August 31, 2016.

COMPLIANCE AND INTERNAL CONTROL

INDEPENDENT AUDITOR'S 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 of
TLC Academy

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 TLC Academy (a nonprofit organization), (the School) 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 thereon dated January 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 entity'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies [2016-1 and 2016-2].

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
400 WEST ILLINOIS, SUITE 1550, MIDLAND, TX 79701
P: 432.683.5226 F: 432.683.9182

To the Board of Directors of
TLC Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's 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.*

TLC Academy's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 19, 2017

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

To the Board of Directors of
TLC Academy

Report on Compliance for the Major Federal Program

We have audited TLC Academy's, (the School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended August 31, 2016. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's 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 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 the School's 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 the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on the Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

To the Board of Directors of
TLC Academy

Report on Internal Control over Compliance

Management of the School 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 the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the School's 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 19, 2017

TLC ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

Federal Grants Agency/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through the Texas Education Agency			
School Breakfast Program (SBP)*	10.553	71401601	$ 109,301
National School Lunch Program (NSLP)*	10.555	71301601	433,501
NSLP TRAINING ASSISTANCE GRANT	10.560	6TX300366	516
Total U.S. Department of Agriculture			543,318
U.S. Department of Education:			
Passed through the Texas Education Agency			
Title I Grants to Local Education Agencies (Title I, Part A)	84.010	16610101226801	233,465
Migrant Education - State Grant Program (MEP)	84.011	16610101226801	607
Special Education - Grants to States (IDEA, Part B)**	84.027	166600012268016600	198,366
Special Education - Preschool Grants (IDEA Preschool)**	84.173	166610012268016610	1,800
Improving Teacher Quality State Grants (Title II, Part A)	84.367	16694501226801	68,073
English Language Acquisition Grants (Title III, Part A)	84.365	1667100122695	9,882
Career and Technical Education - Basic Grants to States (Perkins IV) (CTE)	84.048	1642000622695	17,411
Total U.S. Department of Education			529,604
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,072,922

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of TLC Academy (the School) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Total federal program revenues per the statement of activities include School Health and Related Services (SHARS) revenue (Object 5930) of $29,058 and a federal interest subsidy of $221,674 (Object 5340), which are not included in the schedule of expenditures of federal awards (SEFA). Per the Texas Education Agency, Financial Accountability System Resource Guide, Financial Accounting and Reporting Module (Module 1), SHARS revenue is note considered "federal financial assistance" for inclusion in the SEFA. The federal subsidy is pursuant to section 6431 of the Internal Revenue Code applicable to certain qualified bonds, and as such is also excluded.

NOTE 2: STANDARD FINANCIAL ACCOUNTING SYSTEM

For all federal programs, the School 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.

* Child Nutrition Cluster
** Special Education Cluster (IDEA)

TLC ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016

SECTION I – SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Type of auditor's report issued:	Unmodified
Internal Control over Financial Reporting:	
■ Material weakness(es) identified?	____ Yes _X_ No
■ Significant deficiencies(s) identified that are not considered to be material weaknesses?	_X_ Yes ____ No
Noncompliance material to financial statements noted?	____ Yes _X_ None Reported

Federal Awards

Internal Control over Major Programs:	
■ Material weakness(es) identified?	____ Yes _X_ No
■ Significant deficiencies(s) identified that are not considered to be material weaknesses?	____ Yes _X_ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	____ Yes _X_ No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553	School Breakfast Program*
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

TLC ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016
(CONTINUED)

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.

A. Significant Deficiencies in Internal Control over Financial Reporting

Finding 2016-01

Criteria:

Capital asset acquisitions equal to, or in excess of, $5,000 should be capitalized.

Condition:

Capital additions in the form of leasehold improvements were not capitalized.

Effect:

Capital assets were understated and rent expense was overstated requiring significant adjustment.

Recommendation:

The School should evaluate all capital additions for proper accounting treatment.

Corrective Action Taken:

The Chief Financial Officer has implemented procedures to improve the process for identifying and capitalizing assets.

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS. – CONTINUED

A. *Significant Deficiencies in Internal Control over Financial Reporting – Continued*

Finding 2016-02

Criteria:

Balance sheet accounts should be reconciled at year-end to ensure complete and accurate financial reporting.

Condition:

Certain balance sheet accounts (Prepaid Expense, Deferred Rent and Accrued Interest) did not properly account for changes in balances or year-end accruals. Collectively the balances required significant adjustment.

Effect:

Assets were overstated and liabilities and expense were understated.

Recommendation:

The School should evaluate all balance sheet accounts and related accruals at year-end.

Corrective Action Taken:

The Chief Financial Officer has implemented procedures to improve the process for identifying and capitalizing assets.

SECTION III – FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None.

TLC ACADEMY
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED AUGUST 31, 2016

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.

None.

SECTION III – FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None.