

TLC ACADEMY

FINANCIAL AND COMPLIANCE REPORTS

AUGUST 31, 2013

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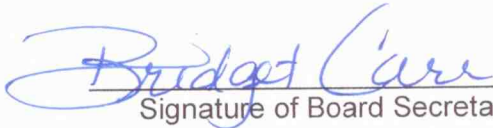
CERTIFICATE OF BOARD

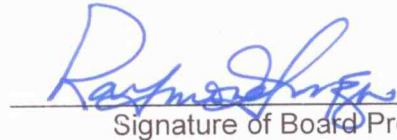
TLC ACADEMY

TLC Academy
Name

226-801
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, 2013 at a meeting of the Board of Directors of the charter holder on the 22nd day of November, 2013.


Signature of Board Secretary


Signature of Board President



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, 2013 and 2012, and the related statements of activities and changes in net assets 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 TLC Academy as of August 31, 2013 and 2012, and the changes in its net assets and its cash flows for the year 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 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 November 22, 2013, 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.

Odessa, Texas
November 22, 2013

TLC ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2013 AND 2012

EXHIBIT A-1

ASSETS	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 56,244	\$ 88,890
Investments	238,387	652,764
Accounts receivable	85,009	26,447
Inventory	36,483	62,876
Prepaid expenses	10,055	20,728
Total current assets	426,178	851,705
PROPERTY AND EQUIPMENT, NET	8,912,108	790,935
OTHER ASSETS		
Cash restricted by bond covenants	8,296,657	-
Unamortized bond issuance costs	997,504	-
TOTAL OTHER ASSETS	9,294,161	-
TOTAL ASSETS	\$ 18,632,447	\$ 1,642,640
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 457,157	\$ 81,596
Accounts payable, related party	4,549	-
Other accrued liabilities	276,245	227,414
Current portion of long-term debt, notes payable	136,180	68,753
Total current liabilities	874,131	377,763
Long-term debt:		
Notes Payable	236,222	131,071
Bonds Payable	16,658,114	-
TOTAL LIABILITIES	17,768,467	508,834
NET ASSETS		
Temporarily restricted	339,602	337,085
Unrestricted	524,378	796,721
Total net assets	863,980	1,133,806
TOTAL LIABILITIES AND NET ASSETS	\$ 18,632,447	\$ 1,642,640

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

TLC ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2013 AND 2012

		2013		
REVENUES		Unrestricted	Temporarily Restricted	Total
Local Support:				
5740	Other revenues from local sources	\$ 69,693	\$ -	\$ 69,693
5750	Revenues from cocurricular, enterprising services or activities	391,257	-	391,257
	Total local support	460,950	-	460,950
State Program Revenues:				
5810	Foundation school program	-	6,896,320	6,896,320
5820	State program revenues distributed by Texas Education Agency	-	44,068	44,068
	Total state program revenues	-	6,940,388	6,940,388
Federal Program Revenues:				
5920	Federal revenues distributed by Texas Education Agency	-	613,460	613,460
	Total federal program revenues	-	613,460	613,460
Net assets released from restrictions:				
	Restrictions satisfied by payments	7,551,331	(7,551,331)	-
	Total revenues	8,012,281	2,517	8,014,798
EXPENSES				
11	Instruction	3,343,037	-	3,343,037
12	Instructional resources and media services	36,341	-	36,341
13	Curriculum development and instructional staff development	31,090	-	31,090
21	Instructional leadership	58,275	-	58,275
23	School leadership	502,279	-	502,279
31	Guidance counseling and evaluation services	94,094	-	94,094
33	Health services	47,778	-	47,778
34	Student (pupil) transportation	140,138	-	140,138
35	Food services	385,480	-	385,480
36	Cocurricular/extracurricular activities	480,930	-	480,930
41	General administration	674,193	-	674,193
51	Plant maintenance and operations	2,092,655	-	2,092,655
52	Security and monitoring services	38,016	-	38,016
53	Data processing services	125,664	-	125,664
61	Community services	35,270	-	35,270
71	Debt service	199,384	-	199,384
	Total expenses	8,284,624	-	8,284,624
CHANGE IN NET ASSETS		(272,343)	2,517	(269,826)
NET ASSETS, beginning of year		796,721	337,085	1,133,806
NET ASSETS, end of year		\$ 524,378	\$ 339,602	\$ 863,980

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

EXHIBIT A-2

2012		
Unrestricted	Temporarily Restricted	Total
\$ 111,344	\$ -	\$ 111,344
306,516	-	306,516
417,860	-	417,860
-	6,070,779	6,070,779
-	25,865	25,865
-	6,096,644	6,096,644
-	702,521	702,521
-	702,521	702,521
6,782,092	(6,782,092)	-
7,199,952	17,073	7,217,025
2,873,829	-	2,873,829
33,162	-	33,162
61,060	-	61,060
48,908	-	48,908
437,486	-	437,486
106,434	-	106,434
31,200	-	31,200
113,694	-	113,694
301,949	-	301,949
407,968	-	407,968
641,809	-	641,809
1,636,864	-	1,636,864
22,784	-	22,784
120,873	-	120,873
30,854	-	30,854
8,677	-	8,677
6,877,551	-	6,877,551
322,401	17,073	339,474
474,320	320,012	794,332
\$ 796,721	\$ 337,085	\$ 1,133,806

**TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012**

EXHIBIT A-3

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	\$ 6,833,936	\$ 6,070,779
Grant payments	617,282	724,203
Local revenues	460,950	416,562
Miscellaneous sources	44,068	25,865
Payments to vendors for goods and services rendered	(2,527,256)	(2,653,576)
Payments to school personnel for services rendered	(4,992,414)	(4,298,939)
Interest payments /(receipts)	(135,055)	7,388
	301,511	292,282
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash transferred from/(to) investments	414,377	(601,697)
Cash restricted for construction	(6,266,710)	-
Proceeds from sale of property and equipment	-	5,000
Additions to property and equipment	(235,334)	(17,355)
	(6,087,667)	(614,052)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash restricted for debt servicing	(2,029,947)	-
Proceeds from issuance of long-term debt	8,868,474	-
Payments for debt issuance costs	(1,016,264)	-
Principal payments of long-term debt	(68,753)	(142,374)
	5,753,510	(142,374)
NET DECREASE IN CASH	(32,646)	(464,144)
CASH AND CASH EQUIVALENTS, beginning of year	88,890	553,034
CASH AND CASH EQUIVALENTS, end of year	\$ 56,244	\$ 88,890

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

**TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012
(CONTINUED)**

EXHIBIT A-3

	2013	2012
RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ (269,826)	\$ 339,474
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	163,892	118,997
Gain on sale of asset	-	(4,889)
Investment (income) loss	-	28
Changes in assets and liabilities:		
Accounts receivable	(58,562)	21,682
Prepaid expenses	10,673	(13,728)
Inventory	26,393	(62,876)
Accounts payable	380,110	24,004
Accrued liabilities	48,831	(130,410)
	<u>\$ 301,511</u>	<u>\$ 292,282</u>
Net cash provided by operating activities		
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES		
Assets purchased with long-term debt	<u>\$ 8,027,917</u>	<u>\$ 141,955</u>

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 expires on July 31, 2014. 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 Grand Prairie, Texas. The Midland campus began classes in August 2013.

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:

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

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, 2013 and 2012, 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.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 (FDIC). 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

Investments are comprised of a certificate of deposit and investments in TexStar Investment Pool, and 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 twenty 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 year ended August 31, 2013 and 2012 was \$78,199 and \$0, respectively.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

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, 2013, \$8,296,657 of the School's cash is restricted. Of that amount \$200,000 is restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with a bank. The remaining \$8,096,657 is restricted by bond agreements with \$1,829,947 restricted for debt service and \$6,266,710 for construction. At August 31, 2012 there was no restricted cash.

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. The total unamortized debt issuance cost was \$997,504 and \$0 for the years ending September 30, 2013 and 2012. Amortization expense was \$21,814 and \$0 for the years ended August 31, 2013 and 2012, 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.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Uncertain Tax Positions

The Financial Accounting Standards Board has recently issued a new standard in accounting for uncertainties in income taxes which requires that 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 litigation processes, based upon the technical merits of the position. The new requirements also provide 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, 2013, the School's tax years 2010 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 \$53,734 and \$46,351 for the years ended August 31, 2013 and 2012, respectively.

Functional Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statements of activities and changes in net assets. 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, 2013 through November 22, 2013, the date these financial statements were available to be issued.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2. INVESTMENTS

The School has a certificate of deposit at a bank, which earns 0.2% and is renewable every six months. The balance of this certificate of deposit as of August 31, 2013 and 2012 was \$51,637 and \$51,515, respectively.

The School also has invested in 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 regiments of concentration of credit risk and from disclosure of interest rate risk.

Investments owned by the School at August 31, 2013 and 2012 are shown below:

	Fair Value 2013	Fair Value 2012	Credit Risk
TexStar (external pool)	\$ 186,750	\$ 601,249	AAAm - S & P
Certificate of deposit	51,637	51,515	
	<u>\$ 238,387</u>	<u>\$ 652,764</u>	

NOTE 3. CAPITAL ASSETS

Capital assets at August 31, 2013 and 2012 were as follows:

	2013	2012
Land	\$ 2,265,880	\$ -
Buildings and improvements	4,175,524	527,192
Vehicles	231,670	175,987
Furniture and equipment	353,394	260,981
Infrastructure	85,494	79,494
Construction in progress	2,194,943	-
	<u>9,306,905</u>	<u>1,043,654</u>
Less accumulated depreciation	<u>394,797</u>	<u>252,719</u>
Property and equipment, net	<u>\$ 8,912,108</u>	<u>\$ 790,935</u>

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.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. CAPITAL ASSETS – CONTINUED

Depreciation expense was \$142,078 (\$23,615, \$32,281, \$3,302, \$82,880 classified in functions 11, 34, 35 and 51, respectively in the Statement of Activities on pages 5 and 6) for the year ended August 31, 2013. Depreciation expense was \$118,997 (\$11,306, \$40,280, \$3,248, and \$64,163 classified in functions 11, 34, 35, and 51 respectively in the Statement of Activities on pages 5 and 6) for the year ended August 31, 2012.

NOTE 4. LONG-TERM DEBT

Long-term debt at August 31, 2013 and 2012 consists of the following:

Revenue Bonds Payable

	2013	2012
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.	\$ 10,670,000	\$ -
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.	1,385,000	-
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	-
Total long-term debt, bonds payable	17,170,000	-
Less unamortized bond discount	511,886	-
Total long-term debt, bonds payable, net of current portion	\$ 16,658,114	\$ -

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 will be amortized over the term of the bonds. The unamortized amount of \$997,504 is recorded as other assets in the statement of financial position.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

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 recorded as a reduction to interest expense at August 31, 2013 was \$40,005.

Debt covenants related to these bonds include maintaining an operating reserve of 30 – 45 days of expenses, as well as a debt service coverage ratio of 1.1 to 1.2. Management of the School believes they were in compliance with these covenants as of August 31, 2013.

Future bonds payable maturities as of August 31, 2013 are as follows:

Year Ending September 30,	Principal	Interest	Total
2014	\$ -	\$ 1,258,212	\$ 1,258,212
2015	225,000	1,258,212	1,483,212
2016	245,000	1,239,686	1,484,686
2017	265,000	1,219,536	1,484,536
2018	290,000	1,197,686	1,487,686
2019-2043	16,145,000	19,736,257	35,881,257
Total	<u>\$ 17,170,000</u>	<u>\$ 25,909,589</u>	<u>\$ 43,079,589</u>

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable

	2013	2012
Note payable to a bank with an interest rate of 7.0%, payable in monthly installments of \$1,000. The note is secured by a vehicle and matures on December 11, 2012.	\$ -	\$ 2,942
Note payable to a bank with an interest rate of 6.75%, payable in monthly installments of \$4,927. The note is secured by portable buildings and matures on December 25, 2014.	74,848	127,053
Note payable to a bank with an interest rate of 3.25%, payable in monthly installments of \$459. The note is secured by a vehicle and matures on June 28, 2016.	14,382	19,829
Note payable to a bank with an interest rate of 6.5%, payable in monthly installments of \$978. The note is secured by vehicles and matures on August 13, 2017.	-	50,000
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.	83,172	-
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.	200,000	-
Total long-term debt, notes payable	372,402	199,824
Less current portion of long-term debt, notes payable	136,180	68,753
Total long-term debt, notes payable, net of current portion	\$ 236,222	\$ 131,071

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Future notes payable maturities as of August 31, 2013 are as follows:

Year Ending August 31,	
2014	\$ 136,180
2015	108,041
2016	90,591
2017	24,723
2018	12,867
Total	\$ 372,402

Total interest paid on the bonds and notes payable for the years ended August 31, 2013 and August 31, 2012 was \$190,670 and \$8,677, respectively. Of the interest paid in 2013, \$13,100 was capitalized as part of a construction project financed with the bond proceeds. The remaining interest expense is recorded in function 71 in the statement of activities and changes in net assets.

NOTE 5. RELATED PARTY TRANSACTIONS

The School has three leases with an affiliate, two of which were terminated in May, 2013, when the School purchased the facilities. 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 2013 and 2012 was \$143,243 and \$158,592, respectively. Accounts payable to the affiliate as of August 31, 2013 and 2012 was \$4,549 and \$0, respectively.

The lease mentioned above is classified as an operating lease and provides for total minimum rentals of \$436,975 through May 31, 2015.

Facilities rent expense paid to the affiliate for the years ended August 31, 2013 and 2012 was \$779,725 and \$646,969, respectively.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. OPERATING LEASES

The School leases modular buildings, other facilities and musical instruments under operating lease agreements expiring in various years through 2016.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2013 for each of the next three years are as follows:

Year Ending August 31,	Related Party	Other	Total
2014	\$ 238,350	\$ 219,837	\$ 458,187
2015	198,625	180,000	378,625
2016	-	162,000	162,000
	<u>\$ 436,975</u>	<u>\$ 561,837</u>	<u>\$ 998,812</u>

Rental expense for these operating leases for the years ended August 31, 2013 and 2012 was \$1,016,010 and \$848,444, respectively.

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended August 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
National School Lunch Program	\$ 42,756	\$ 33,625
National School Breakfast Program	1,738	1,531
Title I, Part A	30,455	35,411
IDEA B Formula	5,283	7,148
PCS Start-Up Grant	<u>259,370</u>	<u>259,370</u>
Total	<u>\$ 339,602</u>	<u>\$ 337,085</u>

NOTE 8. DEFINED PENSION PLAN OBLIGATION

Plan Description

The School contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It 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.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. DEFINED PENSION PLAN OBLIGATION – CONTINUED

Plan Description – Continued

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.

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.

State law provides for a member contribution rate of 6.4% for fiscal years 2013 and 2012, and a state contribution rate of 6.4% for fiscal year 2013 and 6.0% for fiscal year 2012. The School's employees' contributions to TRS for the years ended August 31, 2013 and 2012 were \$267,733 and \$230,214, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the School for salaries above the statutory minimum for the years ended August 31, 2013 and 2012 were \$27,191 and \$23,382, respectively, equal to the required contributions for the year.

NOTE 9. HEALTH CARE COVERAGE

During the years ended August 31, 2013 and 2012, employees of the School were covered by a Health Insurance Plan (the Plan). The School contributed \$200 per full-time employee per month in 2013 and 2012 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**TLC ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. SHARED SERVICES ARRANGEMENT

The School participates in a shared services arrangement for Title III LEP with 35 other school districts. The School's participation in the activity of the shared service was 1.34% for the 2012-2013 school year.

NOTE 11. 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, 2013**

		General School Operations	ESEA Title I	IDEA - B	IDEA Part B Preschool
EXPENSES:					
6100	Payroll costs	\$ 4,555,737	\$ 151,837	\$ 102,434	\$ -
6200	Professional and contracted services	1,705,691	6,594	70,777	1,276
6300	Supplies and materials	656,881	13,893	4,029	523
6400	Other operating expenses	352,865	9,456	-	-
6500	Debt service	199,384	-	-	-
Total expenses		\$ 7,470,558	\$ 181,780	\$ 177,240	\$ 1,799

EXHIBIT C-1

Program Services				
Food Service Fund	ESEA Title II	PCS Start-Up	Title III LEP	Total All Funds
\$ 159,765	\$ 29,296	\$ -	\$ -	\$ 4,999,069
6,507	7,806	-	-	1,798,651
209,783	-	-	-	885,109
9,360	8,687	20,630	1,413	402,411
-	-	-	-	199,384
\$ 385,415	\$ 45,789	\$ 20,630	\$ 1,413	\$ 8,284,624

**TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2012**

	General School Operations	ESEA Title IA	IDEA - B	IDEA Part B Preschool
EXPENSES:				
6100 Payroll costs	\$ 3,766,074	\$ 156,324	\$ 81,344	\$ -
6200 Professional and contracted services	1,499,028	6,430	10,408	-
6300 Supplies and materials	517,895	31,228	16,840	1,766
6400 Other operating expenses	267,061	4,575	-	-
6500 Debt service	8,677	-	-	-
Total expenses	\$ 6,058,735	\$ 198,557	\$ 108,592	\$ 1,766

EXHIBIT C-1

Program Services					
Food Service Fund	ESEA Title II A	PCS Start-Up	ESEA Title IA ARRA	Education Jobs Fund	Total All Funds
\$ 131,053	\$ 5,557	\$ -	\$ -	\$ 126,675	\$ 4,267,027
3,160	37,844	-	-	-	1,556,870
160,934	-	-	2,365	-	731,028
6,802	14,881	20,630	-	-	313,949
-	-	-	-	-	8,677
\$ 301,949	\$ 58,282	\$ 20,630	\$ 2,365	\$ 126,675	\$ 6,877,551

**TLC ACADEMY
SCHEDULE OF CAPITAL ASSETS
AUGUST 31, 2013**

EXHIBIT D-1

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	\$ -	\$ 2,265,880	\$ -
1520	Buildings and improvements	-	3,952,406	223,118
1531	Vehicles	-	231,670	-
1540	Furniture and equipment	93,421	165,901	94,072
1590	Infrastructure	-	85,494	-
1580	Construction-in Progress	-	2,194,943	-
1550	Assets under capital lease obligations	-	-	-
Total property and equipment		\$ 93,421	\$ 8,896,294	\$ 317,190

**TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2013**

EXHIBIT E-1

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
REVENUES				
Local Support:				
5740 Other revenues from local sources	\$ -	\$ 68,188	\$ 69,693	\$ 1,505
5750 Revenues from cocurricular, enterprising services or activities	<u>153,140</u>	<u>389,111</u>	<u>391,257</u>	<u>2,146</u>
Total local support revenues	153,140	457,299	460,950	3,651
State Program Revenues:				
5810 Foundation School Program	6,817,242	6,833,936	6,896,320	62,384
5820 State program revenues distributed by Texas Education Agency	<u>2,100</u>	<u>44,142</u>	<u>44,068</u>	<u>(74)</u>
Total state program revenues	6,819,342	6,878,078	6,940,388	62,310
Federal Program Revenues:				
5920 Federal revenues distributed by Texas Education Agency	476,292	668,367	613,460	(54,907)
5930 Federal revenues from state of Texas government agencies (other than TEA)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total federal program revenues	476,292	668,367	613,460	(54,907)
Net assets released from restrictions: Restrictions satisfied by payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 7,448,774</u>	<u>\$ 8,003,744</u>	<u>\$ 8,014,798</u>	<u>\$ 11,054</u>

**TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2013
(CONTINUED)**

EXHIBIT E-1

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
EXPENSES				
11 Instruction	\$ 3,166,481	\$ 3,403,559	\$ 3,343,037	\$ 60,522
12 Instructional resources and media services	35,396	36,896	36,341	555
13 Curriculum development and instructional staff development	30,610	32,019	31,090	929
21 Instructional leadership	49,815	59,493	58,275	1,218
23 School leadership	477,063	504,741	502,279	2,462
31 Guidance, counseling and evaluation services	96,604	94,797	94,094	703
33 Health services	38,260	51,920	47,778	4,142
34 Student (pupil) transportation	152,139	147,383	140,138	7,245
35 Food services	349,240	377,593	385,480	(7,887)
36 Cocurricular/extracurricular activities	253,249	515,820	480,930	34,890
41 General administration	732,451	693,259	674,193	19,066
51 Plant maintenance and operations	1,802,110	2,109,485	2,092,655	16,830
52 Security and monitoring services	15,600	40,001	38,016	1,985
53 Data processing services	125,822	130,361	125,664	4,697
61 Community services	34,084	36,084	35,270	814
71 Debt service	68,850	39,030	199,384	(160,354)
Total expenses	<u>7,427,774</u>	<u>8,272,441</u>	<u>8,284,624</u>	<u>(12,183)</u>
CHANGE IN NET ASSETS	21,000	(268,697)	(269,826)	(1,129)
NET ASSETS, beginning of year	<u>1,133,806</u>	<u>1,133,806</u>	<u>1,133,806</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 1,154,806</u>	<u>\$ 865,109</u>	<u>\$ 863,980</u>	<u>\$ (1,129)</u>

The variances between final budgeted amounts and actual expenditures that exceeded 10% of the final budget for the year ended August 31, 2013 appear to be caused by the following:

- Function 71: Variance is due to an interest payment related to the new bond issuance. Client did not budget for this payment.

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, 2013, 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 November 22, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TLC Academy'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 TLC Academy'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 the 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 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency [2013-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TLC Academy'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

TLC Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. TLC Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Odessa, Texas
November 22, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
TLC Academy

Report on Compliance for Each Major Federal Program

We have audited TLC Academy's, (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of TLC Academy's major federal programs for the year ended August 31, 2013. The School's major federal programs are 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of TLC Academy'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, TLC Academy 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, 2013.

Report on Internal Control over Compliance

Management of TLC Academy 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 TLC Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TLC Academy'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Odessa, Texas
November 22, 2013

**TLC ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013**

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*	10.553	71401301	\$ 37,172
National School Lunch Program*	10.555	71301301	<u>176,381</u>
Total U.S. Department of Agriculture			213,553
U.S. Department of Education:			
Passed through the Texas Education Agency			
Title I, Part A**	84.010	13610101226801	173,666
IDEA-B Formula***	84.027	136600012268016000	177,240
IDEA B - Preschool***	84.173	136610012268016000	1,799
Title II, Part A, Teacher and Principal Training and Recruiting	84.367	13694501226801	45,789
Title III, Part A, Limited English Proficiency	84.365	13671001226801	<u>1,413</u>
Total U.S. Department of Education			<u>399,907</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 613,460</u>

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

** Title I, Part A Cluster

*** Special Education Cluster

**TLC ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2013**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

	Unqualified
Internal Control over Financial Reporting:	
■ Material weakness(es) identified?	___ Yes <u> X </u> No
■ Significant deficiencies(s) identified that are not considered to be material weaknesses?	<u> X </u> Yes ___ No
Noncompliance material to financial statements noted?	___ Yes <u> X </u> No

Federal Awards

Internal Control over Major Programs:	
■ Material weakness(es) identified?	___ Yes <u> X </u> No
■ Significant deficiencies(s) identified that are not considered to be material weaknesses?	___ Yes <u> X </u> None Reported

Type of auditor's report issued on compliance for major programs:	Unqualified
---	-------------

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

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	IDEA B Formula
84.173	IDEA-B Preschool

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee?	___ X ___ Yes ___ No
--	----------------------

**TLC ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2013**

I. FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies in Internal Control over Financial Reporting

Finding 2013-01

Criteria:

Management is responsible for recording financial activity correctly.

Condition:

Controls were not in place to ensure an entry pertaining to payment of debt interest was made in a timely manner.

Cause:

Management was not aware of the debt schedule activity due to the timing of the newly issued bonds corresponding with the timing of the School's budgeting activities. The event is an isolated incident.

Effect:

Certain account balances reported at year-end by the School had to be adjusted to properly reflect interest payments to present financial statements in accordance with U.S. generally accepted accounting principles.

Recommendation:

Controls should be implemented to record all expenses in a timely manner.

Views of Responsible Officials and Planned Corrective Action:

The School will implement steps to ensure all interest payments are made in a timely manner according to debt amortization schedules provided by the bank.

**TLC ACADEMY
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED AUGUST 31, 2013**

II. PRIOR YEAR FINDINGS

There were no findings in prior year.