TLC ACADEMY

FINANCIAL AND COMPLIANCE REPORTS

AUGUST 31, 2014

CONTENTS

CERTIFICATE OF BOARD

TLC ACADEMY

<u>TLC Academy</u>
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, 2014 at a meeting of the Board of Directors of the charter holder on the 4th day of December, 2014.

Bridget Carr
Signature of Board Secretary

Raymond Martin
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, 2014 and 2013, 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.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P. CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
700 NORTH GRANT AVENUE, SUITE 800, ODESSA, TX 79761
P: 432.333.3221 F: 432.333.3229

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, 2014 and 2013, 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 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 December 17, 2014, 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
December 17, 2014

TLC ACADEMY
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2014 AND 2013

EXHIBIT A-1

	2014	(Restated) 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 240,836	$ 56,244
Investments	136,799	238,387
Accounts receivable	88,439	85,009
Inventory	15,658	36,483
Prepaid expenses	20,231	10,055
Total current assets	501,963	426,178
PROPERTY AND EQUIPMENT, NET	13,285,349	8,912,108
OTHER ASSETS		
Cash restricted by bond covenants	3,317,941	8,296,657
Unamortized bond issuance costs	884,944	997,504
TOTAL OTHER ASSETS	4,202,885	9,294,161
TOTAL ASSETS	$ 17,990,197	$ 18,632,447
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 481,076	$ 457,157
Accounts payable, related party	-	4,549
Other accrued liabilities	421,857	276,245
Current portion of long-term debt, bonds and notes payable	346,625	136,180
Total current liabilities	1,249,558	874,131
LONG-TERM DEBT		
Notes Payable	198,105	236,222
Bonds Payable	16,451,439	16,658,114
TOTAL LIABILITIES	17,899,102	17,768,467
NET ASSETS		
Temporarily restricted	259,830	252,062
Unrestricted	(168,735)	611,918
Total net assets	91,095	863,980
TOTAL LIABILITIES AND NET ASSETS	$ 17,990,197	$ 18,632,447

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, 2014 AND 2013

		2014		
REVENUES		**Unrestricted**	**Temporarily Restricted**	**Total**
Local Support:				
5740	Other revenues from local sources	$ 137,046	$ -	$ 137,046
5750	Revenues from cocurricular, enterprising services or activities	428,116	-	428,116
	Total local support	565,162	-	565,162
State Program Revenues:				
5810	Foundation school program	-	9,051,273	9,051,273
5820	State program revenues distributed by Texas Education Agency	-	76,264	76,264
	Total state program revenues	-	9,127,537	9,127,537
Federal Program Revenues:				
5920	Federal revenues distributed by Texas Education Agency	-	625,147	625,147
5940	Federal revenues distributed directly from the Federal Government	-	219,635	219,635
	Total federal program revenues	-	844,782	844,782
	Net assets released from restrictions:			
	Restrictions satisfied by payments	9,964,551	(9,964,551)	-
	Total revenues	10,529,713	7,768	10,537,481
EXPENSES				
11	Instruction	4,311,520	-	4,311,520
12	Instructional resources and media services	53,307	-	53,307
13	Curriculum development and instructional staff development	35,726	-	35,726
21	Instructional leadership	158,244	-	158,244
23	School leadership	701,939	-	701,939
31	Guidance counseling and evaluation services	124,282	-	124,282
33	Health services	141,593	-	141,593
34	Student (pupil) transportation	203,681	-	203,681
35	Food services	477,554	-	477,554
36	Cocurricular/extracurricular activities	530,944	-	530,944
41	General administration	826,167	-	826,167
51	Plant maintenance and operations	2,248,033	-	2,248,033
52	Security and monitoring services	36,692	-	36,692
53	Data processing services	130,817	-	130,817
61	Community services	46,671	-	46,671
71	Debt service	1,283,196	-	1,283,196
	Total expenses	11,310,366	-	11,310,366
CHANGE IN NET ASSETS		(780,653)	7,768	(772,885)
NET ASSETS, beginning of year as previously reported		-	-	-
	Prior period adjustment	-	-	-
NET ASSETS, beginning of year as restated		611,918	252,062	863,980
NET ASSETS, end of year		$ (168,735)	$ 259,830	$ 91,095

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

EXHIBIT A-2

2013		
Restated Unrestricted	**Restated Temporarily Restricted**	**Restated Total**
$ 69,693	$ -	$ 69,693
391,257	-	391,257
460,950	-	460,950
-	6,896,320	6,896,320
-	44,068	44,068
-	6,940,388	6,940,388
-	613,460	613,460
-	-	-
-	613,460	613,460
7,583,376	(7,583,376)	-
8,044,326	(29,528)	8,014,798
3,343,037	-	3,343,037
36,341	-	36,341
31,090	-	31,090
58,275	-	58,275
502,279	-	502,279
94,094	-	94,094
47,778	-	47,778
140,138	-	140,138
385,480	-	385,480
480,930	-	480,930
674,193	-	674,193
2,092,655	-	2,092,655
38,016	-	38,016
125,664	-	125,664
35,270	-	35,270
199,384	-	199,384
8,284,624	-	8,284,624
(240,298)	(29,528)	(269,826)
796,721	337,085	1,133,806
55,495	(55,495)	-
852,216	281,590	1,133,806
$ 611,918	$ 252,062	$ 863,980

TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2014 AND 2013

EXHIBIT A-3

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	$ 8,986,813	$ 6,833,936
Grant payments	905,812	617,282
Local revenues	565,162	460,950
Miscellaneous sources	76,264	44,068
Payments to vendors for goods and services rendered	(2,841,989)	(2,527,256)
Payments to school personnel for services rendered	(6,691,178)	(4,992,414)
Interest payments	(1,152,309)	(135,055)
Net cash (used in) provided by operating activities	(151,425)	301,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash transferred from/(to) investments	101,588	414,377
Cash restricted for construction	4,511,942	(6,266,710)
Additions to property and equipment	(4,691,615)	(235,334)
Net cash used in investing activities	(78,085)	(6,087,667)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash restricted for debt servicing	466,774	(2,029,947)
Proceeds from issuance of long-term debt	105,867	8,868,474
Payments for debt issuance costs	-	(1,016,264)
Principal payments of long-term debt	(158,539)	(68,753)
Net cash provided by financing activities	414,102	5,753,510
NET INCREASE (DECREASE) IN CASH	184,592	(32,646)
CASH AND CASH EQUIVALENTS, beginning of year	56,244	88,890
CASH AND CASH EQUIVALENTS, end of year	$ 240,836	$ 56,244

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

TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2014 AND 2013
(CONTINUED)

EXHIBIT A-3

	2014	2013
RECONCILIATION OF CHANGE IN NET ASSETS TO CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	$ (772,885)	$ (269,826)
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation and amortization	449,259	163,892
Changes in assets and liabilities:		
Accounts receivable	(3,430)	(58,562)
Prepaid expenses	(10,176)	10,673
Inventory	20,825	26,393
Accounts payable	19,370	380,110
Accrued liabilities	145,612	48,831
Net cash (used in) provided by operating activities	$ (151,425)	$ 301,511

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 and Arlington campuses began classes in August 2013 and 2014, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting and Presentation – Continued

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:

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, 2014 and 2013, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 year ended August 31, 2014 and 2013 was $120,590 and $78,199, respectively.

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, 2014, $3,317,941 of the School's cash is restricted. Of that amount, $200,675 is restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with a bank. The remaining $3,117,266 is restricted by bond agreements with $1,362,498 restricted for debt service and $1,754,768 for construction. At August 31, 2013, $8,296,657 of the School's cash was restricted. Of that amount, $200,000 was restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with 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.

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 $884,944 and $997,504 at August 31, 2014 and 2013, respectively. Amortization expense was $112,560 and $21,814 for the years ended August 31, 2014 and 2013, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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, 2014, the School's tax years 2011 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 $93,044 and $53,734 for the years ended August 31, 2014 and 2013, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2014 through December 17, 2014, the date these financial statements were available to be issued.

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, 2014 and 2013 was $0 and $51,637, 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, 2014 and 2013 are shown below:

	Fair Value 2014	Fair Value 2013	Credit Risk
TexStar (external pool)	$ 136,799	$ 186,750	AAAm - S & P
Certificate of deposit	-	51,637	
	$ 136,799	$ 238,387	

NOTE 3. CAPITAL ASSETS

Capital assets at August 31, 2014 and 2013 were as follows:

	2014	2013
Land	$ 2,265,880	$ 2,265,880
Buildings and improvements	9,774,871	4,175,524
Vehicles	311,662	231,670
Furniture and equipment	1,265,840	353,394
Infrastructure	85,494	85,494
Construction in progress	273,772	2,194,943
	13,977,519	9,306,905
Less accumulated depreciation	692,170	394,797
Property and equipment, net	$ 13,285,349	$ 8,912,108

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 $318,374 ($86,970, $46,707, $3,890, $180,807 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, 2014. Depreciation expense was $142,078 ($23,615, $32,281, $3,302, and $82,880 classified in functions 11, 34, 35, and 51 respectively in the statement of activities and changes in net assets on pages 5 and 6) for the year ended August 31, 2013. The School disposed fully depreciated capital assets during fiscal year 2014, and no gain or loss was recognized from the disposal.

NOTE 4. LONG-TERM DEBT

Long-term debt at August 31, 2014 and 2013 consists of the following:

Revenue Bonds Payable

	2014	2013
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	$ 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	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	5,115,000
Total long-term debt, bonds payable	17,170,000	17,170,000
Less unamortized bond discount	493,561	511,886
Less current portion of long-term debt, bonds payable	225,000	-
Total long-term debt, bonds payable, net of current portion	$ 16,451,439	$ 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 are being amortized over the term of the bonds. The unamortized amount of $884,944 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, 2014 and 2013 was $18,325 and $3,054, respectively.

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%.

NOTE 4. LONG-TERM DEBT – CONTINUED

Revenue Bonds Payable – Continued

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 2014 and 2013 was $219,635 and $40,005, 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 30 – 45 days of expenses. As of August 31, 2014, the School is in compliance with the debt service coverage ratio but not with the operating reserve requirement. The School obtained an approval, on December 9, 2014, from the bondholder waiving the default from operating reserve requirement for fiscal year 2014.

Future bonds payable maturities as of August 31, 2014 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	310,000	1,173,786	1,483,786
2020-2043	15,835,000	18,562,471	34,397,471
Total	$ 17,170,000	$ 24,651,377	$ 41,821,377

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable

	2014	2013
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.	$ 19,264	$ 74,848
Note payable to a bank with an interest rate of 3.25%, payable in monthly installments of $459. The note was secured by a vehicle and paid in full on September 23, 2013.	-	14,382
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.	66,870	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.	139,723	200,000
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.	93,873	-
Total long-term debt, notes payable	319,730	372,402
Less current portion of long-term debt, notes payable	121,625	136,180
Total long-term debt, notes payable, net of current portion	$ 198,105	$ 236,222

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Future notes payable maturities as of August 31, 2014 are as follows:

Year Ending August 31,		
2015	$	121,625
2016		107,495
2017		46,278
2018		35,346
2019		8,986
Total	$	319,730

Total interest expense on the bonds and notes payable for the years ended August 31, 2014 and 2013 was $1,272,900 and $190,670, respectively. Of the interest incurred, $120,590 and $13,100 was capitalized as part of a construction project financed with the bond proceeds for the years ended August 31, 2014 and 2013, respectively. 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 one lease 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 2014 and 2013 was $48,784 and $143,243, respectively. Accounts payable to the affiliate as of August 31, 2014 and 2013 was $0 and $4,549, respectively.

The lease mentioned above is classified as an operating lease and provides for total minimum rentals of $198,625 through May 31, 2015. Facilities rent expense paid to the affiliate for the years ended August 31, 2014 and 2013 was $238,350 and $779,725, 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 $13,624 and $0 for the years ended August 31, 2014 and 2013, respectively.

NOTE 6. OPERATING LEASES

The School leases modular buildings, other facilities and musical instruments under operating lease agreements expiring in various years through 2019.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2014 for each of the next four years are as follows:

Year Ending August 31,	Related Party	Other	Total
2015	$ 198,625	$ 464,644	$ 663,269
2016	-	415,000	415,000
2017	-	265,000	265,000
2018	-	277,000	277,000
2019	-	264,000	264,000
	$ 198,625	$ 1,685,644	$ 1,884,269

Rental expense for these operating leases for the years ended August 31, 2014 and 2013 was $628,517 and $1,016,010, respectively.

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2014 and 2013 consisted of the following:

	2014	Restated 2013
National School Lunch Program	$ 30,359	$ 34,325
National School Breakfast Program	1,607	1,738
Title I, Part A	45,267	18,286
Title II, Part A	2,822	-
IDEA B Formula	5,999	5,283
PCS Start-Up Grant	173,776	192,430
Total	$ 259,830	$ 252,062

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.

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 2014 and 2013, and a state contribution rate of 6.8% and 6.4% for fiscal years 2014 and 2013, respectively. The School's employees' contributions to TRS for the years ended August 31, 2014 and 2013 were $364,668 and $267,733, 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, 2014 and 2013 were $37,038 and $27,191, respectively, equal to the required contributions for the year.

NOTE 9. HEALTH CARE COVERAGE

During the years ended August 31, 2014 and 2013, employees of the School were covered by a Health Insurance Plan (the Plan). The School contributed $200 per full-time employee per month in 2014 and 2013 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

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 1.07% for the 2013-2014 school year, and 1.3% 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.

NOTE 12. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2013 have been restated to correct net asset classifications related to the accumulated depreciation expense of federal capital assets. The restatement was necessary to reflect that the temporary restrictions expire during the asset's useful life.

SUPPLEMENTAL INFORMATION

TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2014

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	$ 6,317,401	$ 87,470	$ 123,951	$ -	$ 217,635	$ -	$ 19,273	$ -	$ -	$ 6,765,730
6200 Professional and contracted services	1,477,296	6,552	42,947	-	14,382	-	13,300	-	-	1,554,477
6300 Supplies and materials	717,870	23,241	3,529	-	237,303	-	-	-	-	981,943
6400 Other operating expenses	666,568	8,591	-	1,455	8,234	7,810	12,867	18,654	841	725,020
6500 Debt service	1,283,196	-	-	-	-	-	-	-	-	1,283,196
Total expenses	$ 10,462,331	$ 125,854	$ 170,427	$ 1,455	$ 477,554	$ 7,810	$ 45,440	$ 18,654	$ 841	$ 11,310,366

TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2013
(CONTINUED)

EXHIBIT C-1

	Program Services									
	General School Operations	ESEA Title IA	IDEA - B	IDEA Part B Preschool	Food Service Fund	ESEA Title II A	PCS Start-Up	ESEA Title IA ARRA	Education Jobs Fund	Total All Funds
EXPENSES:										
6100 Payroll costs	$ 4,555,737	$ 151,837	$ 102,434	$ -	$ 159,765	$ 29,296	$ -	$ -	$ -	$ 4,999,069
6200 Professional and contracted services	1,705,691	6,594	70,777	1,276	6,507	7,806	-	-	-	1,798,651
6300 Supplies and materials	656,881	13,893	4,029	523	209,783	-	-	-	-	885,109
6400 Other operating expenses	352,865	9,456	-	-	9,360	8,687	20,630	1,413	-	402,411
6500 Debt service	199,384	-	-	-	-	-	-	-	-	199,384
Total expenses	$ 7,470,558	$ 181,780	$ 177,240	$ 1,799	$ 385,415	$ 45,789	$ 20,630	$ 1,413	$ -	$ 8,284,624

TLC ACADEMY
SCHEDULE OF CAPITAL ASSETS
AUGUST 31, 2014

EXHIBIT D-1

		Ownership Interest		
		Local	**State**	**Federal**
1510	Land and improvements	$ -	$ 2,265,880	$ -
1520	Buildings and improvements	-	9,551,753	223,118
1531	Vehicles	-	311,662	-
1540	Furniture and equipment	93,421	1,041,221	131,198
1590	Infrastructure	-	85,494	-
1580	Construction in progress	-	273,772	-
	Total property and equipment	$ 93,421	$ 13,529,782	$ 354,316

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2014

EXHIBIT E-1

		Original Budget	Final Budget	Actual Amounts	Variance from Final Budget
REVENUES					
Local Support:					
5740 & 5760	Other revenues from local sources	$ -	$ 120,175	$ 137,046	$ 16,871
5750	Revenues from cocurricular, enterprising services or activities	239,027	242,327	428,116	185,789
	Total local support revenues	239,027	362,502	565,162	202,660
State Program Revenues:					
5810	Foundation School Program	9,913,423	8,992,715	9,051,273	58,558
5820	State program revenues distributed by Texas Education Agency	2,100	90,100	76,264	(13,836)
	Total state program revenues	9,915,523	9,082,815	9,127,537	44,722
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	584,090	630,147	625,147	(5,000)
5940	Federal revenues distributed directly from the Federal Government	-	219,636	219,635	(1)
	Total federal program revenues	584,090	849,783	844,782	(5,001)
TOTAL REVENUES		$ 10,738,640	$ 10,295,100	$ 10,537,481	$ 242,381

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2014
(CONTINUED)

EXHIBIT E-1

		Original Budget	Final Budget	Actual Amounts	Variance from Final Budget
EXPENSES					
11	Instruction	$ 4,503,840	$ 4,593,037	$ 4,311,520	$ 281,517
12	Instructional resources and media services	60,111	51,463	53,307	(1,844)
13	Curriculum development and instructional staff development	32,562	40,761	35,726	5,035
21	Instructional leadership	158,915	166,476	158,244	8,232
23	School leadership	639,105	693,123	701,939	(8,816)
31	Guidance, counseling and evaluation services	106,771	124,384	124,282	102
33	Health services	143,857	142,599	141,593	1,006
34	Student (pupil) transportation	266,240	195,340	203,681	(8,341)
35	Food services	536,702	498,702	477,554	21,148
36	Cocurricular/extracurricular activities	363,172	341,321	530,944	(189,623)
41	General administration	872,712	806,392	826,167	(19,775)
51	Plant maintenance and operations	2,414,821	2,070,241	2,248,033	(177,792)
52	Security and monitoring services	43,198	39,698	36,692	3,006
53	Data processing services	199,466	134,960	130,817	4,143
61	Community services	36,741	38,266	46,671	(8,405)
71	Debt service	603,043	600,953	1,283,196	(682,243)
	Total expenses	10,981,256	10,537,716	11,310,366	(772,650)
CHANGE IN NET ASSETS		(242,616)	(242,616)	(772,885)	(530,269)
NET ASSETS, beginning of year		863,980	863,980	863,980	-
NET ASSETS, end of year		$ 621,364	$ 621,364	$ 91,095	$ (530,269)

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2014
(CONTINUED)

The variances between final budgeted amounts and actual expenditures that exceeded 10% of the final budget for the year ended August 31, 2014 appear to be caused by the following:

- 5740 and 5760: The variance is due to uniform sales during the fiscal year exceeding the budgeted amount. In addition, the School did not budget for the University Interscholastic League (UIL) revenue.

- 5750 and Function 36: The variance is due to the School not budgeting for any of the Fund 461 (Activity Fund) revenue and expenditures for the fiscal year.

- 5820: The variance is due to the School over-budgeting the Instructional Material Allotment (IMA) revenues.

- Function 13: The School expended less than what was budgeted for the curriculum development and instructional staff development.

- Function 61: The variance is due to the hiring of a new employee at the end of the fiscal year. The School did not account for the budget increase to cover the payroll costs.

- Function 71: The variance is due to the interest payments, related to the bonds, for the fiscal year. The School did not budget enough to cover the payments.

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, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2014.

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 [2014-01].

To the Board of Directors of
TLC Academy

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
December 17, 2014

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, 2014. 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, 2014.

To the Board of Directors of
TLC Academy

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
December 17, 2014

TLC ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2014

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	$ 40,199
National School Lunch Program*	10.555	71301301	204,107
Total U.S. Department of Agriculture			244,306
U.S. Department of Education:			
Passed through the Texas Education Agency			
Title I, Part A**	84.010	13610101226801	154,868
IDEA-B Formula***	84.027	136600012268016000	170,427
IDEA B - Preschool***	84.173	136610012268016000	1,455
Title II, Part A, Teacher and Principal Training and Recruiting	84.367	13694501226801	45,440
Title III, Part A, Limited English Proficiency	84.365	13671001226801	841
Career and Technical Education - Basic Grant (Carl D. Perkins)	84.048	14420006226801	7,810
Total U.S. Department of Education			380,841
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 625,147

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.

The total federal program revenues per statement of activities and changes in net assets include federal interest subsidy of $219,635, and are not included in the schedule of expenditures of federal awards. The subsidy is pursuant to section 6431 of the Internal Revenue Code applicable to certain qualified bonds.

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, 2014

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

	Unqualified
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_ No

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:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ 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:	$300,000
Auditee qualified as low-risk auditee?	_X_ Yes ___ No

TLC ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014
(CONTINUED)

I. FINANCIAL STATEMENT FINDINGS

A. Significant Deficiency in Internal Control over Financial Reporting

Finding 2014-01

Criteria:

Evidence should be readily available that general ledger balance sheet accounts are properly carried forward and reconciled to provide for complete, timely, and accurate information with regard to the assets.

Condition:

The School's balance sheet accounts did not properly account for changes in account balances, and certain year-end accruals. Consequently, account balances at year-end were not properly stated on the general ledger and had to be adjusted through significant audit adjustments.

Cause:

Understanding of account reconciliation and its application to the year-end balances contributed to the errors found in the balance sheet accounts.

Effect:

In the absence of balance sheet reconciliation processes, financial reporting could fail to provide complete and accurate information.

Recommendation:

We recommend that the School will implement steps to improve its balance sheet reconciliation process and application of month-end accruals and year-end account reconciliations on a monthly basis to capture these changes in asset accounts.

Views of Responsible Officials and Planned Corrective Actions:

The School will implement steps to improve the balance sheet reconciliation process as recommended by the auditors and will continue communications with the auditors to assure the process meets the standards required.

TLC ACADEMY
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED AUGUST 31, 2014

II. PRIOR YEAR FINDINGS

A. Significant Deficiency in Internal Control over Financial Reporting

Finding 2013-01

Condition:

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

We recommend that 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.

Corrective Action Taken:

The finding is not repeated in the current year.