TLC ACADEMY

FINANCIAL AND COMPLIANCE REPORTS

AUGUST 31, 2015

CONTENTS

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, 2015 at a meeting of the Board of Directors of the charter holder on the 7th day of December, 2015.

Bridget Carr
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, 2015 and 2014, 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.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenses, capital assets and budgetary comparison are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. 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 18, 2015, on our consideration of TLC Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TLC Academy's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
December 18, 2015

TLC ACADEMY
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2015 AND 2014

EXHIBIT A-1

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 413,387	$ 240,836
Investments	688,377	136,799
Accounts receivable	201,060	88,439
Inventory	24,156	15,658
Prepaid expenses	-	20,231
Total current assets	1,326,980	501,963
PROPERTY AND EQUIPMENT, NET	14,485,115	13,285,349
OTHER ASSETS		
Cash restricted by bond covenants	1,681,023	3,317,941
Unamortized bond issuance costs	772,382	884,944
Building deposit	47,000	-
TOTAL OTHER ASSETS	2,500,405	4,202,885
TOTAL ASSETS	$ 18,312,500	$ 17,990,197
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 286,439	$ 481,076
Accounts payable, related party	16,587	-
Due to Parents in Action	53,571	-
Other accrued liabilities	782,709	421,857
Current portion of long-term debt, bonds and notes payable	455,086	346,625
Total current liabilities	1,594,392	1,249,558
LONG-TERM DEBT		
Notes Payable	581,538	198,105
Bonds Payable	16,224,767	16,451,439
TOTAL LIABILITIES	18,400,697	17,899,102
NET (DEFICIT) ASSETS		
Temporarily restricted	286,523	259,830
Unrestricted	(374,720)	(168,735)
Total net (deficit) assets	(88,197)	91,095
TOTAL LIABILITIES AND NET (DEFICIT) ASSETS	$ 18,312,500	$ 17,990,197

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

TLC ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET (DEFICIT) ASSETS
YEARS ENDED AUGUST 31, 2015 AND 2014

		2015		
REVENUES		**Unrestricted**	**Temporarily Restricted**	**Total**
Local Support:				
5740	Other revenues from local sources	$ 267,431	$ -	$ 267,431
5750	Revenues from cocurricular, enterprising services or activities	561,025	-	561,025
	Total local support	828,456	-	828,456
State Program Revenues:				
5810	Foundation school program	-	13,554,680	13,554,680
5820	State program revenues distributed by Texas Education Agency	-	90,772	90,772
	Total state program revenues	-	13,645,452	13,645,452
Federal Program Revenues:				
5920	Federal revenues distributed by Texas Education Agency	-	736,259	736,259
5940	Federal revenues distributed directly from the Federal Government	-	220,485	220,485
	Total federal program revenues	-	956,744	956,744
	Net assets released from restrictions:			
	Restrictions satisfied by payments	14,575,503	(14,575,503)	-
	Total revenues	15,403,959	26,693	15,430,652
EXPENSES				
11	Instruction	6,438,417	-	6,438,417
12	Instructional resources and media services	49,820	-	49,820
13	Curriculum development and instructional staff development	39,636	-	39,636
21	Instructional leadership	106,389	-	106,389
23	School leadership	1,079,401	-	1,079,401
31	Guidance counseling and evaluation services	330,822	-	330,822
33	Health services	194,867	-	194,867
34	Student (pupil) transportation	231,741	-	231,741
35	Food services	687,089	-	687,089
36	Cocurricular/extracurricular activities	678,864	-	678,864
41	General administration	869,897	-	869,897
51	Plant maintenance and operations	3,160,679	-	3,160,679
52	Security and monitoring services	34,946	-	34,946
53	Data processing services	197,718	-	197,718
61	Community services	108,134	-	108,134
71	Debt service	1,401,524	-	1,401,524
	Total expenses	15,609,944	-	15,609,944
CHANGE IN NET (DEFICIT) ASSETS		(205,985)	26,693	(179,292)
NET (DEFICIT) ASSETS, beginning of year		(168,735)	259,830	91,095
NET (DEFICIT) ASSETS, end of year		$ (374,720)	$ 286,523	$ (88,197)

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

2014		
Unrestricted	Temporarily Restricted	Total
$ 137,046	$ -	$ 137,046
428,116	-	428,116
565,162	-	565,162
-	9,051,273	9,051,273
-	76,264	76,264
-	9,127,537	9,127,537
-	625,147	625,147
-	219,635	219,635
-	844,782	844,782
9,964,551	(9,964,551)	-
10,529,713	7,768	10,537,481
4,311,520	-	4,311,520
53,307	-	53,307
35,726	-	35,726
158,244	-	158,244
701,939	-	701,939
124,282	-	124,282
141,593	-	141,593
203,681	-	203,681
477,554	-	477,554
530,944	-	530,944
826,167	-	826,167
2,248,033	-	2,248,033
36,692	-	36,692
130,817	-	130,817
46,671	-	46,671
1,283,196	-	1,283,196
11,310,366	-	11,310,366
(780,653)	7,768	(772,885)
611,918	252,062	863,980
$ (168,735)	$ 259,830	$ 91,095

TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2015 AND 2014

EXHIBIT A-3

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	$ 13,536,557	$ 8,986,813
Grant payments	797,723	905,812
Local revenues	828,456	565,162
Miscellaneous sources	90,772	76,264
Payments to vendors for goods and services rendered	(4,396,736)	(2,841,989)
Payments to school personnel for services rendered	(9,064,771)	(6,691,178)
Interest payments	(1,270,137)	(1,152,309)
Net cash provided by (used in) operating activities	521,864	(151,425)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash transferred (to)/from investments	(498,007)	101,588
Cash restricted for construction	1,324,158	4,511,942
Additions to property and equipment	(1,735,120)	(4,691,615)
Net cash used in investing activities	(908,969)	(78,085)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash restricted for debt servicing	275,721	466,774
Proceeds from issuance of long-term debt	669,600	105,867
Change in compensating balances	37,039	-
Principal payments of long-term debt	(422,704)	(158,539)
Net cash provided by financing activities	559,656	414,102
NET INCREASE IN CASH	172,551	184,592
CASH AND CASH EQUIVALENTS, beginning of year	240,836	56,244
CASH AND CASH EQUIVALENTS, end of year	$ 413,387	$ 240,836

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

TLC ACADEMY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2015 AND 2014
(CONTINUED)

EXHIBIT A-3

	2015	2014
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	$ (179,292)	$ (772,885)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	666,242	449,259
Changes in assets and liabilities:		
Accounts receivable	(112,621)	(3,430)
Prepaid expenses	20,231	(10,176)
Inventory	(8,498)	20,825
Other long term assets	(47,000)	-
Accounts payable	(178,050)	19,370
Accrued liabilities	360,852	145,612
Net cash provided by (used in) operating activities	$ 521,864	$ (151,425)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Accounting and Presentation

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Unrestricted

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

Temporarily Restricted

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by the actions of the School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets are those net assets required to be maintained in perpetuity with only the income to be used, for the School's activities due to donor-imposed restrictions. As of August 31, 2015 and 2014, the School did not hold any assets that were designated as permanently restricted.

Contributions

The School accounts and reports its activities in accordance with ASC 958-605 *Revenue Recognition*, and ASC 958-205 *Presentation of Financial Statements*. In accordance with ASC 958, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition

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

Cash and Cash Equivalents

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentration of Credit Risk

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

Investments

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

Accounts Receivable

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

Inventory

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

Capital Assets

Capital assets, which include buildings and improvements, vehicles and furniture and equipment, are reported in the statements of financial position. Capital assets are defined by the School as assets with a cost of more than $5,000. Such assets are recorded at historical cost at the date of acquisition and are depreciated over the estimated useful lives of the assets, which range from three to fifty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation. The School follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. Interest capitalized for the year ended August 31, 2015 and 2014 was $15,179 and $120,590, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Other Assets

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

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 $772,382 and $884,944 at August 31, 2015 and 2014, respectively. Amortization expense was $112,562 and $112,560 for the years ended August 31, 2015 and 2014, respectively.

Use of Estimates in the Preparation of Financial Statements

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

Income Taxes

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Uncertain Tax Positions

The Financial Accounting Standards Board requires the School recognize in its financial statements the financial effects of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or ligation processes, based upon the technical merits of the position. The standard provides guidance on measurement, classification, interest and penalties and disclosure. Tax positions taken related to the School's tax exempt status, unrelated business income and deductibility of expenses has been reviewed and management is of the opinion that material positions taken by the School would more likely than not be sustained upon examination. Accordingly, the School has not recorded an income tax liability for uncertain tax benefits. As of August 31, 2015, the School's tax years 2012 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 $59,869 and $93,044 for the years ended August 31, 2015 and 2014, 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, 2015 through December 18, 2015, the date these financial statements were available to be issued.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements

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

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

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

NOTE 2. INVESTMENTS

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

Investments owned by the School at August 31, 2015 and 2014 are shown below:

	Fair Value 2015	Fair Value 2014	Credit Risk
TexStar (external pool)	688,377	$ 136,799	AAAm - S & P

NOTE 3. CAPITAL ASSETS

Capital assets at August 31, 2015 and 2014 were as follows:

	2015	2014
Land	$ 2,265,880	$ 2,265,880
Buildings and improvements	11,160,565	9,774,871
Vehicles	309,662	311,662
Furniture and equipment	1,891,038	1,265,840
Infrastructure	85,494	85,494
Construction in progress	-	273,772
	15,712,639	13,977,519
Less accumulated depreciation	1,227,524	692,170
Property and equipment, net	$ 14,485,115	$ 13,285,349

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 $535,354 ($126,449, $46,973, $3,890, $2,203 and $355,839 classified in functions 11, 34, 35, 41 and 51, respectively in the statement of activities on pages 5 and 6) for the year ended August 31, 2015. 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.

NOTE 3. CAPITAL ASSETS – CONTINUED

The School disposed fully depreciated capital assets during fiscal year 2014, and no gain or loss was recognized on disposal.

NOTE 4. LONG-TERM DEBT

Long-term debt at August 31, 2015 and 2014 consists of the following:

Revenue Bonds Payable

	2015	2014
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.	$ 10,630,000	$ 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.	1,200,000	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	16,945,000	17,170,000
Less unamortized bond discount	475,233	493,561
Less current portion of long-term debt, bonds payable	245,000	225,000
Total long-term debt, bonds payable, net of current portion	$ 16,224,767	$ 16,451,439

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 $772,382 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, 2015 and 2014 was $18,326 and $18,325, respectively.

NOTE 4. LONG-TERM DEBT – CONTINUED

Revenue Bonds Payable – Continued

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

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

On June 27, 2013, the School issued $5,115,000 of Tom Green County Cultural Education Facilities Finance Corporation Taxable Education Revenue Bonds, Series 2013Q, with interest rates of 7.5% to 7.75%. These bonds are subject to an irrevocable election to be treated as "specified tax credit bonds" pursuant to Section 6431(f) of the IRS Code and therefore eligible for federal subsidy payments from the US Treasury equal to the lesser of (i) 100% of the interest payable on an interest payment date or (ii) the amount of interest which would have been payable under such bonds on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) with respect to the bonds. The federal subsidy that was used to pay for bond interest during fiscal years 2015 and 2014 was $220,485 and $219,635, 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, 2015, the School is in compliance with the debt service coverage ratio but not with the operating reserve requirement. However, the school resolved the non-compliance within the 30-day cure period.

Future bonds payable maturities as of August 31, 2015 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	335,000	1,148,186	1,483,186
2021-2043	15,500,000	17,246,554	32,746,554
Total	$ 16,945,000	$ 23,225,434	$ 40,170,434

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable

	2015	2014
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
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.	49,799	66,870
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.	73,205	139,723
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.	73,602	93,873
Note payable to a bank with an interst rate of 5.75%, payable in monthly installments of $2,959. The note is secured by portable buldings and matures on May 4, 2020.	147,104	-
Note patable to a bank with an interest reate of 3.0%, payable in monthly installments of $4,303. The note is secured by all present and future accounts held with the bank as well as property listed in the security agreement.	100,000	-

NOTE 4. LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

	2015	2014
Mortgage payable to a church with an interest rate of 8.0%, payable in monthly installments of $4,368. The mortgage is secured by certain real property in Abilene, Texas and matures on and February 3, 2025.	347,914	-
Total long-term debt, notes payable	791,624	319,730
Less current portion of long-term debt, notes payable	210,086	121,625
Total long-term debt, notes payable, net of current portion	$ 581,538	$ 198,105

Future notes payable maturities as of August 31, 2015 are as follows:

Year Ending August 31,	
2016	$ 209,950
2017	152,910
2018	96,138
2019	74,303
2020	60,877
Thereafter	197,446
Total	$ 791,624

Total interest incurred on the bonds and notes payable for the years ended August 31, 2015 and 2014 was $1,285,316 and $1,272,900, respectively. Of the interest incurred, $15,179 and $120,590 was capitalized as part of a construction project financed with the bond proceeds for the years ended August 31, 2015 and 2014, 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 two leases with an affiliate. The affiliate charges the School for facility repairs and maintenance, utilities, and liability insurance allocated based on the School's usage of those facilities and property at an allocated percentage of 100%. The amount the School paid the affiliate for those allocated costs in 2015 and 2014 was $1,600 and $48,784, respectively.

The leases mentioned above are classified as operating leases and provide for total minimum rentals of $1,176,500 through August 31, 2018. Facilities rent expense paid to the affiliate for the years ended August 31, 2015 and 2014, was $362,795 and $238,350, respectively.

In September 2014, the School entered into a leasing arrangement with the affiliate mentioned above whereby the affiliate leased certain school property when it was not in use for school purposes. The lease had a term of one year, expiring in August 2015, with the option to renew on a month to month basis thereafter. The month to month arrangement was terminated in September 2015. Revenues for this leasing arrangement totaled $60,000 and $0 for the years ended August 31, 2015 and 2014, respectively, and are included in the accompanying statement of activities and changes in net assets as local support.

Accounts payable to the affiliate as of August 31, 2015 and 2014 was $16,587 and $0, 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 $42,951 and $13,624 for the years ended August 31, 2015 and 2014, respectively.

NOTE 6. OPERATING LEASES

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

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2015 for each of the next four years are as follows:

Year Ending August 31,	Related Party	Other	Total
2016	$ 769,500	$ 518,686	$ 1,288,186
2017	222,000	581,226	803,226
2018	185,000	619,151	804,151
2019	-	607,188	607,188
2020	-	343,188	343,188
Thereafter	-	2,199,723	2,199,723
	$ 1,176,500	$ 4,869,162	$ 6,045,662

Rental expense related to operating leases for the years ended August 31, 2015 and 2014, was $811,859 and $628,517, respectively.

NOTE 7. OTHER OPERATING LEASING ARRANGEMENTS

In July 2014, the School entered into a leasing arrangement with a church, whereby the School leased certain portions of the Arlington campus to the church during periods in which the campus was not in use for school operations. The lease included an initial term of one year, with the option to renew on a month to month basis thereafter. Rental revenue related to this lease for the years ended August 31, 2015 and 2014 was $42,000 and $3,500, respectively, and is included in local support on the accompanying statements of activities and changes in net assets.

In August 2014, the School entered into a leasing arrangement with a second church, whereby the School leased certain portions of the Arlington campus to the church during periods in which the campus was not in use for school operations. The lease included an initial term of one year, with the option to renew on a month to month basis thereafter. Rental revenue related to this lease for the years ended August 31, 2015 and 2014 was $54,000 and $4,500, respectively, and is included in local support on the accompanying statements of activities and changes in net assets.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2015 and 2014 consisted of the following:

	2015	2014
National School Lunch Program	$ 39,851	$ 30,359
National School Breakfast Program	4,601	1,607
Title I, Part A	60,195	45,267
Title II, Part A	6,308	2,822
IDEA B Formula	20,249	5,999
IDEA B Preschool	197	-
PCS Start-Up Grant	155,122	173,776
Total	$ 286,523	$ 259,830

NOTE 9. DEFINED PENSION PLAN OBLIGATION

Plan Description

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

TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing the TRS Communications Department, 1000 Red River, Austin, Texas 78701-2698 or by calling the TRS Communications Department at (800) 223-8778 or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publications Heading.

NOTE 9. DEFINED PENSION PLAN OBLIGATION – CONTINUED

Plan Description – Continued

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

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

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

Total Plan assets, accumulated benefit obligations and percent funded are reported by TRS in its consolidated annual financial report. For the Plan years ended August 31, 2015 and 2014, TRS reported the following:

Plan Name: Teacher Retirement System of Texas

Plan Employee Identification Number N/A

	2015	2014
Total plan assets	$ 149,780,062,000	$ 157,261,707,000
Accumulated benefit obligations	$ 163,887,375,000	$ 159,496,076,000
Percent funded	78.43%	83.25%

NOTE 9. DEFINED PENSION PLAN OBLIGATION – CONTINUED

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

For the Plan years ended August 31, 2015 and 2014, state law provided for the following contribution rates:

	2015	2014
Member	6.7%	6.4%
Non-employer entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

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

	2015	2014
TLCA employee contributions	$ 520,765	$ 364,668
Employer surcharge	126,261	-
Total contributions*	$ 647,026	$ 364,668

*TLCA's contributions were less than 5% of total plan contributions from all entitles of $5.54B and $4.87B for the Plan year ended August 31, 2015 and 2014, respectively.

NOTE 10. HEALTH CARE COVERAGE

During the years ended August 31, 2015 and 2014, employees of the School were covered by a Health Insurance Plan (the Plan). The School contributed $246 and $200 per full-time employee per month to the Plan in 2015 and 2014, respectively. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 11. SHARED SERVICES ARRANGEMENTS

The School participates in shared service arrangements for several Federal grant programs with other school districts. Education Service Center Region XV (Region XV) acts as the coordinator and fiscal agent for these arrangements. The fiscal agent manager is responsible for all financial actives of the individual shared service arrangements. Participation in these arrangements does not entitle the School to joint ownership in any capital assets acquired by the fiscal agent. Charter schools are required to account for, and disclose revenues and expenditures related to these programs. For the years ended August 31, 2015 and 2014, the School participated in a shared service arrangement for the following Federal grant programs: Migrant Education – State Grant Program (MEP), English Language Acquisition Grants (LEP or Title III, Part A), and Career and Technical Education – Basic Grants to States (Perkins IV) (CTE).

Revenues related to these programs are included under the caption Federal revenues distributed by Texas Education Agency and the offsetting expenditures are classified in function 11 in the accompanying statement of activities and changes in net assets.

NOTE 12. COMMITMENT AND CONTINGENCIES

Grants

The School received funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the School's funds may be subject to refund if so determined by the TEA or the grantor agency.

SUPPLEMENTAL INFORMATION

TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2015

EXHIBIT C-1

						Program Services						
		General School Operations	ESEA Title I	MEP	IDEA - B	IDEA Part B Preschool	Food Service Fund	Carl D. Perkins	ESEA Title II	PCS Start-Up	Title III LEP	Total All Funds
EXPENSES:												
6100	Payroll costs	$ 9,058,206	$ 141,288	$ -	$ 129,771	$ -	$ 51,930	$ -	$ 36,811	$ -	$ -	$ 9,418,006
6200	Professional and contracted services	2,125,251	8,458	-	-	-	618,207	-	8,623	-	-	2,760,539
6300	Supplies and materials	1,018,109	38,859	-	5,015	395	7,365	-	-	-	-	1,069,743
6400	Other operating expenses	899,562	11,682	881	1,233	483	9,587	12,214	3,290	18,654	2,546	960,132
6500	Debt service	1,401,524	-	-	-	-	-	-	-	-	-	1,401,524
	Total expenses	$ 14,502,652	$ 200,287	$ 881	$ 136,019	$ 878	$ 687,089	$ 12,214	$ 48,724	$ 18,654	$ 2,546	$ 15,609,944

TLC ACADEMY
SCHEDULE OF EXPENSES
YEAR ENDED AUGUST 31, 2014
(CONTINUED)

EXHIBIT C-1

		Program Services									
		General School Operations	ESEA Title I	IDEA - B	IDEA Part B Preschool	Food Service Fund	Carl D. Perkins	ESEA Title II	PCS Start-Up	Title III LEP	Total All Funds
EXPENSES:											
6100	Payroll costs	$ 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 CAPITAL ASSETS
AUGUST 31, 2015

EXHIBIT D-1

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	$ -	$ 2,265,880	$ -
1520	Buildings and improvements	-	10,937,447	223,118
1531	Vehicles	-	309,662	-
1540	Furniture and equipment	93,421	1,666,419	131,198
1590	Infrastructure	-	85,494	-
	Total property and equipment	$ 93,421	$ 15,264,902	$ 354,316

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2015

EXHIBIT E-1

		Original Budget	Final Budget	Actual Amounts	Variance from Final Budget
REVENUES					
Local Support:					
5740 & 5760	Other revenues from local sources	$ 218,900	$ 271,082	$ 267,431	$ (3,651)
5750	Revenues from cocurricular, enterprising services or activities	211,000	550,000	561,025	11,025
	Total local support revenues	429,900	821,082	828,456	7,374
State Program Revenues:					
5810	Foundation School Program	13,908,455	13,908,455	13,554,680	(353,775)
5820	State program revenues distributed by Texas Education Agency	2,100	87,595	90,772	3,177
	Total state program revenues	13,910,555	13,996,050	13,645,452	(350,598)
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	857,168	747,149	736,259	(10,890)
5940	Federal revenues distributed directly from the Federal Government	-	220,848	220,485	(363)
	Total federal program revenues	857,168	967,997	956,744	(11,253)
TOTAL REVENUES		$ 15,197,623	$ 15,785,129	$ 15,430,652	$ (354,477)

TLC ACADEMY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2015
(CONTINUED)

EXHIBIT E-1

		Original Budget	Final Budget	Actual Amounts	Variance from Final Budget
EXPENSES					
11	Instruction	$ 6,351,269	$ 6,801,861	$ 6,438,417	$ 363,444
12	Instructional resources and media services	56,331	48,931	49,820	(889)
13	Curriculum development and instructional staff development	56,676	40,251	39,636	615
21	Instructional leadership	106,838	106,410	106,389	21
23	School leadership	991,532	1,080,898	1,079,401	1,497
31	Guidance, counseling and evaluation services	365,019	329,232	330,822	(1,590)
33	Health services	220,946	195,454	194,867	587
34	Student (pupil) transportation	217,979	229,479	231,741	(2,262)
35	Food services	466,353	656,353	687,089	(30,736)
36	Cocurricular/extracurricular activities	320,085	644,624	678,864	(34,240)
41	General administration	860,485	880,753	869,897	10,856
51	Plant maintenance and operations	3,086,179	3,114,557	3,160,679	(46,122)
52	Security and monitoring services	41,884	34,884	34,946	(62)
53	Data processing services	198,478	198,478	197,718	760
61	Community services	116,814	109,014	108,134	880
71	Debt service	1,254,475	1,685,375	1,401,524	283,851
	Total expenses	14,711,343	16,156,554	15,609,944	546,610
CHANGE IN NET ASSETS		486,280	(371,425)	(179,292)	192,133
NET ASSETS, beginning of year		91,095	91,095	91,095	-
NET DEFICIT, end of year		$ 577,375	$ (280,330)	$ (88,197)	$ 192,133

None of the variances between final budgeted amounts and actual expenditures exceeded 10% of the final budget for the year ended August 31, 2015.

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, 2015, 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 18, 2015.

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. 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.

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

To the Board of Directors of
TLC Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.*

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
December 18, 2015

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 the 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 the TLC Academy's major federal program for the year ended August 31, 2015. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on the Major Federal Program

In our opinion, 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 its major federal program for the year ended August 31, 2015.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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.

Midland, Texas
December 18, 2015

TLC ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2015

Federal Grants Agency/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through the Texas Education Agency			
School Breakfast Program (SBP)*	10.553	71401501	$ 52,959
National School Lunch Program (NSLP)*	10.555	71301501	293,232
Total U.S. Department of Agriculture			346,191
U.S. Department of Education:			
Passed through the Texas Education Agency			
Title I Grants to Local Education Agencies (Title I, Part A)	84.010	15610101226801	188,805
Migrant Education - State Grant Program (MEP)	84.011	15615001226950	881
Special Education - Grants to States (IDEA, Part B)**	84.027	156600012268016000	136,021
Special Education - Preschool Grants (IDEA Preschool)**	84.173	156610012268016610	878
Improving Teacher Quality State Grants (Title II, Part A)	84.367	15694501226801	48,723
English Language Acqusition Grants (Title III, Part A)	84.365	15671001226950	2,546
Career and Technical Education - Basic Grants	84.048	15420006226950	
to States (Perkins IV) (CTE)			12,214
Total U.S. Department of Education			390,068
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 736,259

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 the statement of activities and changes in net assets include a federal interest subsidy of $220,485, which is 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
** Special Education Cluster (IDEA)

TLC ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2015

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	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?	___ Yes _X_ 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
84.010	Title I Grants to Local Education Agencies (Title I, Part A)

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 STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED AUGUST 31, 2015

I. PRIOR YEAR FINDINGS

A. Significant Deficiency in Internal Control over Financial Reporting

Finding 2014-01

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.

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.

Corrective Action Taken:

The School has implemented steps to improve the balance sheet reconciliation process as recommended in the current year.