TLC Academy

Annual Financial Report
For the Fiscal Years Ended August 31, 2018 and 2017

TLC Academy

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Introductory Section

CERTIFICATE OF BOARD

TLC ACADEMY

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

We, the undersigned, certify that the attached Financial and Compliance Report of TLC Academy was reviewed and ( ) approved ( ) disapproved for the year ended August 31, 2018 at a meeting of the Board of Directors of the charter holder on the 22nd day of January, 2019.

Bridget Carr
Signature of Board Secretary

Raymond [illegible]
Signature of Board President

Financial Section

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Austin | Conroe | Dallas | Fort Worth | Houston
Los Angeles | Midland | New York City | San Antonio

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 (the School), a nonprofit organization, which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TLC Academy as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.
400 West Illinois Avenue, Suite 1550 | Midland, Texas 79701
Main: 432.683.5226 | Fax: 432.683.9182
CPAs AND ADVISORS | WEAVER.COM

The Board of Directors of
TLC Academy

Other Matters

Other Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenses, capital assets and budgetary comparison are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, on our consideration of TLC Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TLC Academy's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 22, 2019

Financial Statements

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TLC Academy

Exhibit A-1

Statements of Financial Position
August 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 631,128	$ 694,160
Investments	1,904,745	1,613,796
Investments - restricted	761,788	1,186,376
Accounts receivable	75,197	576,115
Inventory	32,881	28,928
Prepaid expenses	74,838	51,817
Total current assets	3,480,577	4,151,192
PROPERTY AND EQUIPMENT, NET	18,923,240	18,064,081
OTHER ASSETS		
Cash restricted by bond covenants	1,658,892	1,626,553
Building deposit	17,000	37,000
Total other assets	1,675,892	1,663,553
TOTAL ASSETS	$ 24,079,709	$ 23,878,826
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 221,894	$ 282,209
Accounts payable, related party	761,788	1,186,376
Due to Parents in Action	12,289	24,025
Other accrued liabilities	1,182,200	1,362,548
Current portion of long-term debt, bonds and notes payable	1,049,086	641,765
Total current liabilities	3,227,257	3,496,923
LONG-TERM DEBT		
Deferred rent, long-term portion	218,480	230,616
Notes payable	2,027,060	1,467,569
Bonds payable	17,244,059	17,510,644
Total liabilities	22,716,856	22,705,752
NET ASSETS		
Temporarily restricted	172,770	310,624
Unrestricted	1,190,083	862,450
Total net assets	1,362,853	1,173,074
TOTAL LIABILITIES AND NET ASSETS	$ 24,079,709	$ 23,878,826

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

TLC Academy
Statements of Activities
For the Fiscal Years Ended August 31, 2018 and 2017

Control Codes		2018 Unrestricted	2018 Temporarily Restricted	2018 Total
	REVENUES			
	Local Support:			
5740	Other revenues from local sources	$ 333,650	$ -	$ 333,650
5750	Revenues from cocurricular, enterprising services or activities	786,997	-	786,997
	Total local support	1,120,647	-	1,120,647
	State Program Revenues:			
5810	Foundation school program	-	22,883,738	22,883,738
5820	State program revenues distributed by Texas Education Agency	-	302,003	302,003
	Total state program revenues	-	23,185,741	23,185,741
	Federal Program Revenues:			
5920	Federal revenues distributed by Texas Education Agency	-	1,711,340	1,711,340
5930	Federal revenues distributed by other State of Texas government agencies	-	48,442	48,442
5940	Federal revenues distributed directly from the Federal Government	-	221,646	221,646
	Total federal program revenues	-	1,981,428	1,981,428
	Net assets released from restrictions:			
	Restrictions satisfied by payments	25,305,023	(25,305,023)	-
	Total revenues	26,425,670	(137,854)	26,287,816
	EXPENSES			
11	Instruction	12,291,578	-	12,291,578
12	Instructional resources and media services	93,338	-	93,338
13	Curriculum development and instructional staff development	191,931	-	191,931
21	Instructional leadership	61,122	-	61,122
23	School leadership	1,992,698	-	1,992,698
31	Guidance counseling and evaluation services	661,412	-	661,412
33	Health services	272,456	-	272,456
34	Student (pupil) transportation	460,511	-	460,511
35	Food services	849,899	-	849,899
36	Cocurricular/extracurricular activities	1,162,802	-	1,162,802
41	General administration	1,171,057	-	1,171,057
51	Plant maintenance and operations	5,160,155	-	5,160,155
52	Security and monitoring services	18,425	-	18,425
53	Data processing services	327,875	-	327,875
61	Community services	16,134	-	16,134
71	Debt service	1,506,075	-	1,506,075
	Total expenses	26,237,468	-	26,237,468
	OTHER			
7959	Gain on involuntary conversion	139,431	-	139,431
	Total other	139,431	-	139,431
	Change in net assets	327,633	(137,854)	189,779
NET ASSETS, beginning of year		862,450	310,624	1,173,074
NET ASSETS, end of year		$ 1,190,083	$ 172,770	$ 1,362,853

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

Exhibit A-2

2017		
	Temporarily	
Unrestricted	Restricted	Total
$ 276,716	$ -	$ 276,716
706,810	-	706,810
983,526	-	983,526
-	21,229,842	21,229,842
-	127,041	127,041
-	21,356,883	21,356,883
-	1,492,331	1,492,331
-	11,919	11,919
-	221,436	221,436
-	1,725,686	1,725,686
23,066,572	(23,066,572)	-
24,050,098	15,997	24,066,095
10,940,961	-	10,940,961
72,555	-	72,555
194,669	-	194,669
100,513	-	100,513
1,749,470	-	1,749,470
568,097	-	568,097
226,695	-	226,695
318,692	-	318,692
885,559	-	885,559
983,686	-	983,686
1,119,045	-	1,119,045
4,781,165	-	4,781,165
32,007	-	32,007
356,558	-	356,558
12,012	-	12,012
1,542,821	-	1,542,821
23,884,505	-	23,884,505
499,377	-	499,377
499,377	-	499,377
664,970	15,997	680,967
197,480	294,627	492,107
$ 862,450	$ 310,624	$ 1,173,074

TLC Academy

Statements of Cash Flows
For the Fiscal Years Ended August 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	$ 23,221,692	$ 21,141,826
Grant payments	2,144,392	1,683,402
Local revenues	1,120,647	983,526
Miscellaneous sources	302,003	127,041
Payments to vendors for goods and services rendered	(7,600,146)	(5,333,026)
Payments to school personnel for services rendered	(16,965,380)	(15,096,694)
Interest payments	(1,411,074)	(1,428,952)
Net cash provided by operating activities	812,134	2,077,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale (purchase) of investments	133,639	(1,785,984)
Proceeds from sale of property and equipment	29,256	917,302
Purchases of property and equipment	(1,426,194)	(915,722)
Net cash used in investing activities	(1,263,299)	(1,784,404)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash restricted for debt servicing	-	(8,806)
Proceeds from issuance of long-term debt	1,120,716	410,163
Payment of debt issuance costs	-	(68,013)
Principal payments of long-term debt	(700,244)	(986,284)
Change in cash restricted for bond covenants	(32,339)	376,796
Net cash provided by (used in) financing activities	388,133	(276,144)
Net (decrease) increase in cash	(63,032)	16,575
CASH AND CASH EQUIVALENTS, beginning of year	694,160	677,585
CASH AND CASH EQUIVALENTS, end of year	$ 631,128	$ 694,160

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

	2018	2017
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 189,779	$ 680,967
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	817,534	823,866
Gain on involuntary conversion	(139,431)	(499,397)
Changes in assets and liabilities		
Accounts receivable	215,761	(130,300)
Prepaid expenses	(23,021)	(6,622)
Inventory	(3,953)	2,982
Other long term assets	20,000	-
Accounts payable	(60,315)	(455,643)
Accounts payable, related party	-	1,177,904
Due to Parents in Action	(11,736)	(10,444)
Accrued liabilities	(180,348)	516,022
Deferred rent, long-term portion	(12,136)	(22,212)
Net cash provided by operating activities	$ 812,134	$ 2,077,123
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital asset additions included in accounts payable	$ -	$ 12,240
Capital assets additions acquired with debt	122,867	-
Recognized loss on conversion included in accounts receivable	285,157	-
Gain on conversion included in accounts payable, related party	(424,588)	-
Accrued gain on conversion included in accounts receivable	-	(285,895)
Total noncash investing and financing activities	$ (16,564)	$ (273,655)

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

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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.

A. 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.

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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:

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

2. 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.

3. *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, 2018 and 2017, the School did not hold any assets that were designated as permanently restricted.

C. 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.

D. 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.

E. 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.

F. 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.

G. 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.

H. Accounts Receivable

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

I. 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.

J. Capital Assets

Capital assets, which include buildings and improvements, vehicles and furniture and equipment, are reported in the statements of financial position. Capital assets are defined by the School as assets with a cost of more than $5,000. Such assets are recorded at historical cost at the date of acquisition and are depreciated over the estimated useful lives of the assets, which range from three to fifty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation. The School follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. Interest capitalized for the years ended August 31, 2018 and 2017, was $51,589 and $28,724, respectively.

K. Other Assets

Other assets consist of cash restricted by bond covenants and miscellaneous deposits related to leased premises. 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, 2018, $1,658,892 of the School's cash is restricted. Of that amount, $261,633 is restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with a bank. The remaining $1,397,259 is restricted by bond agreements for debt service. At August 31, 2017, $1,626,553 of the School's cash is restricted. Of that amount, $250,880 was restricted to maintain a compensating balance equal to 100% of the outstanding loan balance per a loan agreement with a bank. The remaining $1,375,673 is restricted by bond agreements for debt service.

L. 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.

M. 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.

N. 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, 2018, the School's tax years 2015 and thereafter remain subject to examination.

O. 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.

P. Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled $79,851 and $78,158 for the years ended August 31, 2018 and 2017, respectively.

Q. Functional Expenses

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

R. Subsequent Events

The School has evaluated all events and transactions that occurred after August 31, 2018 through January 22, 2019, the date these financial statements were available to be issued. See Note 4 for discussion of subsequent refinancing agreement.

S. Recent Accounting Pronouncements

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

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

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
2. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income.
3. Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

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

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
3. Classify all cash payments within operating activities in the statement of cash flows.

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

For all non-public for profit entities, the amendments in this ASU 2016-02 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The School is in the process of determining the effects of this ASU on financial reporting. The School is in the process of evaluating the changes and determining the effects of ASU 2016-12 on financial reporting.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is part of a project set out by FASB to make improvements to the current net asset classification requirements and improve presentation of and notes about a not-for-profit's liquidity, financial performance, and cash flows. ASU 2016-14 is the first update issued to aid in this project. ASU 2016-14 results in the following changes:

1. Not-for-profits presenting two classes of net assets on the statement of financial position with two corresponding changes in net assets on the face of the statement of activities, as opposed to the three classes currently required.
2. Not-for-profits will continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method. However, the presentation or disclosure of the indirect method (reconciliation) will no longer be required if the direct method is used.
3. Provide enhanced disclosures about governing board designations, appropriations, and similar actions, composition of net assets with donor restrictions, qualitative information about management of liquid resources available, quantitative and qualitative information as necessary about the availability of the entity's financial assets to meet cash needs at the balance sheet date, amounts of expenses by both natural and functional classification, methodology used to allocate the costs associated with program and support functions, and underwater endowment funds.
4. Report investment return net of external and direct internal investment expenses. Disclosure of net expenses will no longer be required.
5. Use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets.

The amendments in ASU 2016-14 are effective for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning December 15, 2018. Early application is permitted provided the amendments in this update are applied on a retrospective basis in the year that the update is first applied. The School is in the process of evaluating the changes and determining the effects of ASU 2016-14 on financial reporting.

In August 2016, FASB has issued ASU 2016-15, Statement of Cash Flows (Topic 230) - *Classification of Certain Cash Receipts and Cash Payments*, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows.

The amendments provide guidance on eight specific cash flow issues.

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

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

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

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

The amendments in ASU 2016-18 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The School is in the process of evaluating the changes and determining its effects on financial reporting.

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 201-08 seeks to assist entities in distinguishing between reciprocal and nonreciprocal transactions and determining whether a contribution is conditional. For transactions deemed to be contributions, entities should follow Topic 958. For transactions deemed to be exchanges, entities should follow Topic 606 – *Revenue from Contracts from Customers*. The amendments in this update are effective for public business entities NFPs for transactions in which the entity is the resource recipient for the fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019.

The amendments in this update are effective for public business entities or NFPs for transaction in which the entity is resource provider for fiscal years beginning after December 15, 2019 and interim periods within annual periods beginning December 15, 2020.

Note 2. Investments

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

Investments owned by the School at August 31, 2018 and 2017 are shown below:

	Fair Value 2018	Fair Value 2017	Credit Risk
TexStar (external pool)	$ 1,904,745	$ 1,613,796	AAAm - S & P

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

As of August 31, 2018, of the $2,666,533 invested in TexStar is $1,904,745 of unrestricted and $761,788 of restricted by contract. The restricted portion relates to certain insurance proceeds from hail damage that occurred in May and June of 2017 involving properties leased from a related party. The lease arrangement requires that the School maintain property insurance on the leased properties, and in the event of a loss, the School is required to repair property. In the event the leased premises is not repaired, the School would be required to remit the insurance proceeds to the owner. In addition the restriction of the investments, management has accrued a related party payable in the amount of $761,788. As of August 31, 2017, $1,186,376 of investments were restricted for insurance proceeds from hail damage.

Note 3. Capital Assets

Capital assets at August 31, 2018 and 2017 were as follows:

	2018	2017
Land	$ 2,535,880	$ 2,535,880
Buildings and improvements	14,787,442	14,615,951
Vehicles	605,050	464,803
Furniture and equipment	1,979,775	1,979,775
Infrastructure	507,616	85,494
Construction in progress	1,577,130	794,549
	21,992,893	20,476,452
Less accumulated depreciation	3,069,653	2,412,371
Property and equipment, net	$ 18,923,240	$ 18,064,081

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 $660,439 ($113,646; $85,396; $2,084; $2,203; and $457,110 classified in functions 11, 34, 35, 41 and 51, respectively in the statement of activities on pages 8 and 9) for the year ended August 31, 2018. Depreciation expense was $680,071 ($127,836; $63,108; $3,379; $2,203; and $483,545 classified in functions 11, 34, 35, 41 and 51, respectively in the statement of activities on pages 8 and 9) for the year ended August 31, 2017.

Note 4. Long-Term Debt

Long-term debt at August 31, 2018 and 2017 consists of the following:

Revenue Bonds Payable

	2018	2017
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.	$ 10,490,000	$ 10,540,000
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.	540,000	780,000
Taxable Education Revenue Bonds, Series 2013Q, in the amount of $5,115,000, at a rate of 7.5% - 7.75%, issued June 27, 2013, final maturity August 15, 2037.	5,115,000	5,115,000
Education Revenue Bonds, Series 2016, in the amount of $2,600,000, at a rate of 4.05%, issued April 27, 2016, final maturity March 15, 2026.	2,432,248	2,525,289
Total long-term debt, bonds payable	18,577,248	18,960,289
Less unamortized bond discount	420,255	438,581
Less unamortized bond issuance costs	506,054	628,023
Less current portion of long-term debt, bonds payable	406,880	383,041
Total long-term debt, bonds payable, net of current portion	$ 17,244,059	$ 17,510,644

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 totaled $1,016,264. These costs were capitalized and are being amortized over the term of the bonds. As of August 31, 2018 and 2017, the unamortized amounts of $506,054 and $628,023, respectively are recorded as a direction reduction to the bond liability. Amortization of bond issuance costs was $121,969 and $125,107 for the years ended August 31, 2018 and 2017, respectively. The bond discount is amortized over the life of the bonds as interest expense. Bond discount amortization for the years ended August 31, 2018 and 2017 was $18,327 and $18,326, 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%.

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 2018 and 2017, was $221,646 and $221,436, respectively.

Debt covenants related to these bonds include maintaining a debt service ratio of 1.1 to 1.2, as well as maintaining an operating reserve of 45 days of expenses. As of August 31, 2018, the School is in compliance with the debt service coverage and the operating reserve requirement.

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

The debt issuance costs for these bonds totaled $93,308. These costs were capitalized and are being amortized over the term of the bonds. As of August 31, 2018 and 2017, the unamortized amounts of $71,353 and $80,762, respectively are recorded as a direct reduction to the bond liability. Amortization of bond issuance costs was $9,409 and $9,409 for the years ended August 31, 2018 and 2017, respectively.

Future bonds payable maturities as of August 31, 2018, are as follows:

Year Ending September 30,	Principal	Interest	Total
2019	$ 406,880	$ 1,270,507	$ 1,677,387
2020	435,877	1,240,910	1,676,787
2021	470,039	1,209,097	1,679,136
2022	499,373	1,179,213	1,678,586
2023	533,886	1,147,401	1,681,287
2024-2043	16,231,193	14,077,232	30,308,425
Total	$ 18,577,248	$ 20,124,360	$ 38,701,608

Notes Payable

	2018	2017
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.	$ -	$ 12,861
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.	7,029	29,287
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.	58,738	87,359
Note payable to a bank with an interest rate of 5.0%, payable in monthly installments of $1,020. The note is secured by three buses and matures on August 21, 2020.	22,901	33,815
Mortgage payable to the seller of certain real proporty which was acquired by the School in conjunction with the Series 2016 Education Bonds. The mortgage is secured by the real property, bears interest at a rate of 6.0% and is payable in monthly installments of $8,692. The mortgage matures on June 1, 2019.	927,146	973,473
Note payable to a bank with an interest rate of 3.0%, payable in monthly installments of $10,809. The note is secured by the School's savings held by the institution. The note matures August 17, 2019.	126,731	250,585
Construction note payable to a bank with a variable interest starting at a rate of 4.75%, payable in monthly installments of $7,640 and increasing as draws are made to fund construction. The note is secured by certain real property in Abeline, Texas and matures on October 1, 2033. Currently the amount owed is $1,073,937 with a maximum draw of $2,000,000.	1,073,937	370,222
Note payable to a bank with an interest rate of 5.0%, payable in monthly installments of $1,169. The note is secured by four buses and matures on July 10, 2020.	25,535	36,934
Note payable to a bank with an interest rate of 3.0%, payaable in monthly instatements of $2,927. The note is secured by five vans and matures on September 13, 2022.	134,797	-
Note payable to a bank with an interest rate of 3.0%, payable in monthly installments of $6,800. The note is secured by the School's savings held by the institution and matures on April 18, 2019	353,492	-
Total long-term debt, notes payable	2,730,306	1,794,536
Less unamortized debt issuance costs	61,040	68,243
Less current portion of long-term debt, notes payable	642,206	258,724
Total long-term debt, notes payable, net of current portion	$ 2,027,060	$ 1,467,569

Future notes payable maturities as of August 31, 2018, are as follows:

Year Ending August 31,		
2019	$	642,206
2020		356,208
2021		311,403
2022		317,266
2023		289,797
2024-2043		813,426
Total	$	2,730,306

Notes payable include debt issuance cost of $68,243, related to a construction note payable issued in August 2017. As of August 31, 2018 and 2017, the unamortized amounts of $61,040 and $68,243, respectively are recorded as a direct reduction the note payable and included in the above table. Amortization expense was $7,203 and $0 for the years ended August 31, 2018 and 2017, respectively.

Total interest incurred on the bonds and notes payable for the years ended August 31, 2018 and 2017, was $1,411,074 and $1,428,113, respectively. Of the interest incurred, $51,589 and $28,724 was capitalized as part of a construction project financed with the bond proceeds for the years ended August 31, 2018 and 2017, respectively. The remaining interest expense is recorded in function 71 in the statement of activities.

On January 22, 2019, the School entered into a refinance agreement for mortgage payable described above with outstanding balance of $927,146 as of August 31, 2018. The terms of the agreement resulted in $890,682 to be reclassified from current liabilities notes payable to long-term debt notes payable.

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 2018 and 2017 was $33,482 and $63,010, respectively.

The leases mentioned above are classified as operating leases and provide for total minimum rentals of $8,507,650 through July 31, 2027. Facilities rent expense paid to the affiliate for the years ended August 31, 2018 and 2017, was $1,219,560 and $825,260, respectively.

Accounts payable to the affiliate as of August 31, 2018 and 2017 was $761,788 and $1,186,376 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 $15,813 and $2,513 for the years ended August 31, 2018 and 2017, respectively.

As discussed in Note 2, the hail damage from 2017 resulted in an involuntary conversion gain of $499,377 as the result of estimated insurance proceeds and damage claims. During 2018, the estimated insurance proceeds and damage claims were revised resulting in an involuntary conversion gain of $139,431, as a result of a decrease in accounts receivable and decrease in related party accounts payable of $285,157 and $424,588, 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, 2018, for each of the next four years are as follows:

Year Ending August 31,	Related Party	Other	Total
2019	$ 1,195,560	$ 476,823	$ 1,672,383
2020	1,158,560	366,823	1,525,383
2021	973,560	350,995	1,324,555
2022	973,560	330,015	1,303,575
2023	973,560	330,015	1,303,575
Thereafter	3,232,850	1,017,545	4,250,395
Total	$ 8,507,650	$ 2,872,216	$ 11,379,866

Rental expense related to operating leases for the years ended August 31, 2018 and 2017, was $1,841,098 and $1,430,882 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, 2018 and 2017, was $42,000 and $42,000, respectively, and is included in local support on the accompanying statements of activities.

In August 2014, the School entered into a leasing arrangement with a second church, whereby the School leased certain portions of the Arlington campus to the church during periods in which the campus was not in use for school operations. The lease included an initial term of one year, with the option to renew on a month to month basis thereafter. Rental revenue related to this lease for the years ended August 31, 2018 and 2017, was $54,000 and $54,000, respectively, and is included in local support on the accompanying statements of activities.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2018 and 2017, consisted of the following:

	2018	2017
National School Lunch Program	$ 42,176	$ 47,949
National School Breakfast Program	8,645	6,910
Title I, Part A	12,203	84,940
Title II, Part A	-	5,771
IDEA B Formula	32	40,331
Carl D. Perkins	-	142
PCS Start-Up Grant	109,714	124,581
Total	$ 172,770	$ 310,624

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.

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, 2018 and 2017, TRS reported the following:

Plan Name:	Teacher Retirement System of Texas	
Plan Employee Identification Number	N/A	
	2018	2017
Total plan assets	$ 176,942,453,923	$ 165,379,341,964
Accumulated benefit obligations	$ 209,611,328,793	$ 179,336,534,819
Percent funded	73.74%	82.17%

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, 2018 and 2017, state law provided for the following contribution rates:

	2018	2017
Member	7.7%	7.7%
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 employees as well as the required surcharge were as follows for the years ended August 31, 2018 and 2017:

	2018	2017
TLCA employee contributions	$ 1,100,177	$ 978,492
Employer surcharge	214,321	190,225
Total contributions*	$ 1,314,498	$ 1,168,717

*TLCA's contributions were less than 5% of total plan contributions of $6.75B and $6.53B from all entitles for the Plan years ended August 31, 2017 and 2016, respectively.

Note 10. Health Care Coverage

During the years ended August 31, 2018 and 2017, employees of the School were covered by a Health Insurance Plan (the Plan). The School contributed $414 for high plan and $200 for low plan, and $330 per full-time employee per month to the Plan in 2018 and 2017, respectively. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Beginning September 1, 2016, TLC elected to become self-insured. As part of the process, TLC obtained excess loss insurance, which limited annual claims paid by the School for the year ended August 31, 2018, to $70,000 for any individual participant and an aggregate limit equal to 125% of the expected claims.

Estimates of claims payable and of claims incurred but not reported at August 31, 2018 and 2017, totaling $36,830 and $9,154 respectively, and are included in accounts payable. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities are as follows for the years ended August 31, 2018 and 2017:

	2018	2017
Unpaid claims, beginning of year	$ 9,154	$ -
Incurred claims, (including IBNR)	1,236,209	1,156,439
Claim payments	(1,208,533)	(1,147,285)
Unpaid claims, end of year	$ 36,830	$ 9,154

Claim liability is reported in other accrued liabilities.

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, 2018 and 2017, the School participated in a shared service arrangement for the following Federal grant programs: Migrant Education – State Grant Program (MEP), English Language Acquisition Grants (LEP or Title III, Part A), and Career and Technical Education – Basic Grants to States (Perkins IV) (CTE). Revenues related to these programs are included under the caption Federal revenues distributed by Texas Education Agency and the offsetting expenditures are classified in function 11 in the accompanying statement of activities.

Note 12. Commitment and Contingencies

Grants

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

Supplemental Information

TLC Academy
Schedule of Expenses
For the Fiscal Year Ended August 31, 2018

Data Control Codes		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	Title IV Part A	Total All Funds
		Program Services										
	EXPENSES											
6100	Payroll costs	$16,091,367	$ 387,696	$ 310,385	$ -	$ 39,364	$ -	$ 44,792	$ -	$ -	$ -	$16,873,604
6200	Professional and contracted services	3,628,689	52,959	3,518	-	741,943	-	2,636	-	-	-	4,429,745
6300	Supplies and materials	1,794,303	195,930	3,667	1,660	62,544	-	-	-	-	10,000	2,068,104
6400	Other operating expenses	1,271,766	17,012	3,166	-	6,048	23,521	12,862	14,867	10,698	-	1,359,940
6500	Debt service	1,506,075	-	-	-	-	-	-	-	-	-	1,506,075
	TOTAL EXPENSES	$24,292,200	$ 653,597	$ 320,736	$ 1,660	$ 849,899	$ 23,521	$ 60,290	$ 14,867	$ 10,698	$ 10,000	$26,237,468

Data Control Codes		General School Operations	ESEA Title I	MEP	IDEA - B	IDEA Part B Preschool	Food Service Fund	Carl D. Perkins	ESEA Title II	PCS Start-Up	Title III LEP	Title IV 21st Century	Total All Funds
		Program Services											
	EXPENSES												
6100	Payroll costs	$14,782,126	$ 318,235	$ -	$ 319,557	$ -	$ 43,186	$ -	$ 44,634	$ -	$ -	$ 984	$15,508,722
6200	Professional and contracted services	3,167,365	6,083	-	8,560	-	766,658	-	11,249	-	-	-	3,959,915
6300	Supplies and materials	1,483,614	49,984	-	-	1,495	66,300	-	-	-	-	-	1,601,393
6400	Other operating expenses	1,164,022	7,425	59	-	-	8,431	20,681	45,300	15,123	10,613	-	1,271,654
6500	Debt service	1,542,821	-	-	-	-	-	-	-	-	-	-	1,542,821
	TOTAL EXPENSES	$22,139,948	$ 381,727	$ 59	$ 328,117	$ 1,495	$ 884,575	$ 20,681	$ 101,183	$ 15,123	$ 10,613	$ 984	$23,884,505

TLC Academy **Exhibit D-1**

Schedule of Capital Assets

For the Fiscal Year Ended August 31, 2018

Data Control Codes		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	$ -	$ 2,535,880	$ -
1520	Buildings and improvements	-	14,564,324	223,118
1531	Vehicles	-	605,050	-
1540	Furniture and equipment	93,421	1,755,156	131,198
1590	Infrastructure	-	507,616	-
1580	Construction in progress	-	1,577,130	-
	TOTAL PROPERTY AND EQUIPMENT	$ 93,421	$ 21,545,156	$ 354,316

TLC Academy

Exhibit E-1

Budgetary Comparison Schedule
For the Fiscal Year Ended August 31, 2018

Data Control Codes		Original Budget	Final Budget	Variance from Original Budget	Actual Amounts	Variance from Final Budget
	REVENUES					
	Local Support:					
5740 & 5760	Other revenues from local sources	$ 164,901	$ 304,048	$ 139,147	$ 333,650	$ 29,602
5750	Revenues from cocurricular, enterprising services or activities	247,000	773,400	526,400	786,997	13,597
	Total local support revenues	411,901	1,077,448	665,547	1,120,647	43,199
	State Program Revenues:					
5810	Foundation School Program	24,459,132	23,029,001	(1,430,131)	22,883,738	(145,263)
5820	State program revenues distributed by Texas Education Agency	5,000	313,416	308,416	302,003	(11,413)
	Total state program revenues	24,464,132	23,342,417	(1,121,715)	23,185,741	(156,676)
	Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	1,502,614	1,795,525	292,911	1,711,340	(84,185)
5930	Federal revenues distributed by other State of Texas government agencies	20,000	46,100	26,100	48,442	2,342
5940	Federal revenues distributed directly from the Federal Government	221,500	221,500	-	221,646	146
	Total federal program revenues	1,744,114	2,063,125	319,011	1,981,428	(81,697)
	Total revenues	26,620,147	26,482,990	(137,157)	26,287,816	(195,174)
	EXPENSES					
11	Instruction	12,279,305	12,495,163	(215,858)	12,291,578	203,585
12	Instructional resources and media services	86,664	92,664	(6,000)	93,338	(674)
13	Curriculum development and instructional staff development	153,602	202,138	(48,536)	191,931	10,207
21	Instructional leadership	40,290	62,570	(22,280)	61,122	1,448
23	School leadership	1,930,142	1,981,142	(51,000)	1,992,698	(11,556)
31	Guidance, counseling and evaluation services	645,291	670,291	(25,000)	661,412	8,879
33	Health services	278,280	278,280	-	272,456	5,824
34	Student (pupil) transportation	418,518	433,741	(15,223)	460,511	(26,770)
35	Food services	958,884	850,573	108,311	849,899	674
36	Cocurricular/extracurricular activities	579,306	1,142,616	(563,310)	1,162,802	(20,186)
41	General administration	1,168,175	1,183,175	(15,000)	1,171,057	12,118
51	Plant maintenance and operations	5,992,314	5,178,069	814,245	5,160,155	17,914
52	Security and monitoring services	42,203	18,695	23,508	18,425	270
53	Data processing services	474,194	327,194	147,000	327,875	(681)
61	Community services	22,800	16,500	6,300	16,134	366
71	Debt service	1,550,179	1,550,179	-	1,506,075	44,104
	Total expenses	26,620,147	26,482,990	137,157	26,237,468	245,522
	OTHER					
7959	Gain on involuntary conversion	-	-	-	139,431	139,431
	Total other	-	-	-	139,431	139,431
	Change in net assets	-	-	-	189,779	189,779
NET ASSETS, beginning of year		1,173,074	1,173,074	-	1,173,074	-
NET ASSETS, end of year		$ 1,173,074	$ 1,173,074	$ -	$ 1,362,853	$ 189,779

Variances between Original and Final Budgets

The School amended its budget for the following:

- Objects 5740 and 5760 – The budget was amended for an increase in interest income, donations and uniform sales.
- Object 5750 – The budget was amended to reflect activity fund revenue as collected.
- Object 5820 – The budget was amended as activity occurred.
- Object 5920 – Budget increase is due to maximum entitlement increases to the Federal programs and an increase in revenue collected for child nutrition fund lunch and breakfast program.
- Object 5930 – The budget was amended to agree to SHARS revenue received.
- Function 11 – The budget was amended to reflect activity in the IMA fund for the Title I School Improvement grant.
- Function 12 – The budget was amended as activity occurred.
- Function 13 – The budget was amended to account for the Title I School Improvement grant.
- Function 21 – Payroll cost exceeded original estimates; budget re-classed from other functions.
- Function 23 – Payroll cost exceeded original estimates; budget re-classed from other functions; and copier lease cost increases.
- Function 31 – Payroll cost exceeded original estimate; budget re-classed from other functions.
- Function 34 – Payroll cost exceeded original estimates; budget re-classed from other functions and auto insurance increased from original estimate.
- Function 36 – The budget was increased as campus activity fund expenditures were incurred during the year.
- Function 41 – Group health insurance cost exceeded original estimate; budget was re-classed from other functions.
- Function 52 – Certain contracted services were budgeted but not needed; budget re-classed from other functions.
- Function 53 – budget include amounts for capital expenditures; budget re-classed when items were capitalized.

Variances between Budgeted and Actual Amounts
None of the variances between final budgeted amounts and actual expenditures exceeded 10% of the final budget for the year ended August 31, 2018.

Overall Compliance and Internal Control Section

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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 (the School), a nonprofit organization, which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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The Board of Directors of
TLC Academy

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 22, 2019

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Directors of
TLC Academy

Report on Compliance for the Major Federal Program

We have audited TLC Academy's (the School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended August 31, 2018. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on the Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2018.

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The Board of Directors of
TLC Academy

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
January 22, 2019

TLC Academy

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2018

Fund Number	Federal Grantor/ Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	U.S. DEPARTMENT OF AGRICULTURE			
	Passed through Texas Department of Education			
	Child Nutrition Cluster:			
240	National School Breakfast Program (5921)	10.553	71401801	$ 109,672
240	National School Lunch Program - Cash Assistance (5922)	10.555	71301801	479,128
240	National School Lunch Program - Noncash Assistance (5923)	10.555	71301801	49,463
	Total Child Nutrition Cluster			638,263
	Total U.S. Department of Agriculture			638,263
	U.S. DEPARTMENT OF EDUCATION			
	Passed through Texas Education Agency			
211	Title I, Part A - Improving Basic Programs (211)	84.010A	18610101226801	398,644
211	Title I, School Improvement Priority Grant (211)	84.010A	18610123226801	247,528
	Total Title I, Part A			646,172
	Special Education Cluster (IDEA):			
224	Special Education Grants to States (224)	84.027A	186600012268016000	320,736
225	Special Education Preschool Grants (225)	84.173A	186610012268016000	1,660
	Total Special Education Cluster (IDEA)			322,396
255	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) (255)	84.367A	18694501226801	60,290
263	Title III, Part A - LEP (263)	84.365A	18671001226950	10,698
244	Career and Technical Education -- Basic Grants to States (244)	84.048A	18420006226801	23,521
289	Title IV, Part A - Student Support and Academic Enrichment Grant (289)	84.424	18680101226801	10,000
	Total U.S. Department of Education			1,073,077
	TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,711,340

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of TLC Academy (the School) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The School has elected not to use the 10% de minimis indirect cost rates as allowed under *Uniform Guidance* .

Total federal program revenues per the statement of activities include School Health and Related Services (SHARS) revenue (Object 5930) of $48,442 and a federal interest subsidy of $221,646 (Object 5340), which are not included in the schedule of expenditures of federal awards (SEFA). Per the Texas Education Agency, Financial Accountability System Resource Guide, Financial Accounting and Reporting Module (Module 1), SHARS revenue is note considered "federal financial assistance" for inclusion in the SEFA. The federal subsidy is pursuant to section 6431 of the Internal Revenue Code applicable to certain qualified bonds, and as such is also excluded.

NOTE 2: STANDARD FINANCIAL ACCOUNTING SYSTEM

For all federal programs, the School used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

TLC Academy
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended August 31, 2018

Section 1. Summary of Independent Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?		Yes	X	No
Significant deficiencies(s) identified that are not considered to be material weakness(es)?		Yes	X	None Reported
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

An unmodified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?		Yes	X	No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
10.553; 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee?	X	Yes		No

TLC Academy
Schedule of Findings and Questioned Costs – Continued
For the Fiscal Year Ended August 31, 2018

Section 2. Financial Statement Findings

None

Section 3. Federal Award Findings

None.

Section 4. Schedule of Prior Audit Findings and Questioned Costs

None.

Section 5. Status of Prior Year Findings

None.