



LEADERSHIP
education
FOUNDATION

LEADERSHIP EDUCATION FOUNDATION

CERTIFICATE OF BOARD

JANUARY 21, 2016

Leadership Education Foundation
Name of Charter Holder

Brazos 021-805
County Co.-Dist. Number

Federal EIN: 74-2636905

We, the undersigned, certify that the attached financial and compliance report of the above-named charter holder was reviewed and (check one) approved disapproved for the year ended August 31, 2015, at a meeting of the governing body of the charter holder on the 21st day of January, 2016.

s/Carmen Maxwell

s/William Walsh

Signature of Board Secretary

Signature of Board Chairman

If the governing body of the charter holder does not approve the independent auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

**Leadership Education Foundation –
Arrow Academy**

Financial Statements
and Single Audit Reports
for the year ended August 31, 2015

Leadership Education Foundation – Arrow Academy

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Leadership Education Foundation – Arrow Academy:

Report on the Financial Statements

We have audited the accompanying financial statements of Leadership Education Foundation – Arrow Academy (Arrow Academy), which comprise the statements of financial position as of August 31, 2015 and 2014 and the related statements of activities and of 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.

Auditors' 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 our 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 auditors' 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 Arrow 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 11 through 21 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended August 31, 2015 as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is also 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016 on our consideration of Arrow 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 Arrow Academy's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style with a slight slant to the right.

January 21, 2016

Leadership Education Foundation – Arrow Academy

Statements of Financial Position as of August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash	\$ 1,551,470	\$ 1,281,885
Government grants and other receivables	753,401	900,323
Prepaid expenses and other assets	<u>152,216</u>	<u>148,705</u>
Total current assets	2,457,087	2,330,913
Other assets	90,500	104,000
Furniture and equipment, net (<i>Note 2</i>)	<u>494,996</u>	<u>770,816</u>
TOTAL ASSETS	<u>\$ 3,042,583</u>	<u>\$ 3,205,729</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 117,307	\$ 362,200
Accrued payroll expenses	300,211	319,220
Payable to affiliates (<i>Note 3</i>)	65,551	315,874
Current portion of notes payable (<i>Note 4</i>)	<u>30,763</u>	<u>292,266</u>
Total current liabilities	513,832	1,289,560
Notes payable (<i>Note 4</i>)		<u>30,915</u>
Total liabilities	<u>513,832</u>	<u>1,320,475</u>
Commitments (<i>Note 7</i>)		
Unrestricted net assets (<i>Note 5</i>)	<u>2,528,751</u>	<u>1,885,254</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,042,583</u>	<u>\$ 3,205,729</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statement of Activities for the year ended August 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Government grants (<i>Note 6</i>)	\$ 8,436,727		\$ 8,436,727
Contributions	1,031,221	\$ 100,000	1,131,221
Food service and other fees	<u>91,807</u>		<u>91,807</u>
Total revenue	9,559,755	100,000	9,659,755
Net assets released from restrictions:			
Program expenditures	<u>100,000</u>	<u>(100,000)</u>	
Total	<u>9,659,755</u>	<u>0</u>	<u>9,659,755</u>
EXPENSES:			
Program expenses:			
Instructional	7,485,543		7,485,543
Auxiliary services	<u>811,490</u>		<u>811,490</u>
Total program expenses	8,297,033		8,297,033
General and administrative	608,750		608,750
Fundraising	<u>110,475</u>		<u>110,475</u>
Total expenses	<u>9,016,258</u>		<u>9,016,258</u>
CHANGES IN NET ASSETS			
	643,497	0	643,497
Net assets, beginning of year	<u>1,885,254</u>	<u>0</u>	<u>1,885,254</u>
Net assets, end of year	<u>\$ 2,528,751</u>	<u>\$ 0</u>	<u>\$ 2,528,751</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statement of Activities for the year ended August 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Government grants (<i>Note 6</i>)	\$ 8,606,227		\$ 8,606,227
Contributions	211,470	\$ 50,000	261,470
Food service and other fees	<u>33,332</u>		<u>33,332</u>
Total revenue	8,851,029	50,000	8,901,029
Net assets released from restrictions:			
Program expenditures	<u>154,430</u>	<u>(154,430)</u>	
Total	<u>9,005,459</u>	<u>(104,430)</u>	<u>8,901,029</u>
EXPENSES:			
Program expenses:			
Instructional	6,467,371		6,467,371
Auxiliary services	<u>986,015</u>		<u>986,015</u>
Total program expenses	7,453,386		7,453,386
General and administrative	566,534		566,534
Fundraising	<u>175,690</u>		<u>175,690</u>
Total expenses	<u>8,195,610</u>		<u>8,195,610</u>
CHANGES IN NET ASSETS	809,849	(104,430)	705,419
Net assets, beginning of year	<u>1,075,405</u>	<u>104,430</u>	<u>1,179,835</u>
Net assets, end of year	<u>\$ 1,885,254</u>	<u>\$ 0</u>	<u>\$ 1,885,254</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statements of Cash Flows for the years ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 643,497	\$ 705,419
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	330,906	310,356
Changes in operating assets and liabilities:		
Government grants and other receivables	146,922	(454,988)
Prepaid expenses and other assets	9,989	(177,803)
Accounts payable and accrued expenses	(244,893)	205,938
Accrued payroll expenses	(19,009)	(13,477)
Payable to affiliates	<u>(250,323)</u>	<u>176,686</u>
Net cash provided by operating activities	<u>617,089</u>	<u>752,131</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of furniture and equipment	<u>(55,086)</u>	<u>(152,396)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of notes payable	<u>(292,418)</u>	<u>(279,399)</u>
NET CHANGE IN CASH		
Cash, beginning of year	<u>1,281,885</u>	<u>961,549</u>
Cash, end of year	<u>\$ 1,551,470</u>	<u>\$ 1,281,885</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$8,630	\$21,649

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Notes to Financial Statements for the years ended August 31, 2015 and 2014

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – Leadership Education Foundation – Arrow Academy (Arrow Academy) operates Texas Open-Enrollment Charter Schools under state charter #021805. The charter is held by Leadership Education Foundation and is operated under the name Arrow Academy. Seven schools are in operation located in Houston and Bryan, Texas, serving approximately 830 students from kindergarten through 8th grades for the 2014-2015 school year. Arrow Academy is supported by state and federal grants provided by the Texas Education Agency and by private contributions.

Federal income tax status – Arrow Academy is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). Arrow Academy files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. Arrow Academy believes it is no longer subject to examinations of returns for tax years ended before August 31, 2012.

Concentration of credit risk – Cash deposits exceed the federally insured limit per depositor per institution. Amounts on deposit from federal and state sources that are in excess of the Federal Deposit Insurance Corporation limit of \$250,000 are collateralized by a security agreement with the bank.

Furniture and equipment are reported at cost if purchased or at fair value at the date of gift if donated. Arrow Academy recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 4 to 7 years for furniture and equipment. Arrow Academy capitalizes additions that have an individual cost of more than \$5,000, as well as all student laptops and other technology equipment with aggregate costs of more than \$5,000 and/or assets that are required by funding sources to be capitalized.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Government grants are recognized as revenue in the period in which the services are provided. Amounts collected in advance are reported as refundable advances.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. In 2015, one donor provided 88% of contribution revenue.

Contributed services and facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Food service and other fees are recognized in the period in which services are provided.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – FURNITURE AND EQUIPMENT

Furniture and equipment are comprised of the following:

	<u>2015</u>	<u>2014</u>
Furniture and equipment, at cost	\$ 1,607,467	\$ 1,552,381
Accumulated depreciation	<u>(1,112,471)</u>	<u>(781,565)</u>
Furniture and equipment, net	<u>\$ 494,996</u>	<u>\$ 770,816</u>

Texas statutes state that property purchased with funds received by a charter school holder is considered to be public property for all purposes under state law and is held in trust by the charter school holder for the benefit of the students of the open enrollment charter school and may be used only for those purposes.

NOTE 3 – AFFILIATE ENTITIES

Arrow Academy, LLC, a Delaware corporation, was formed to provide educational and administrative services for charter schools. Arrow Academy has entered into an educational and administrative services agreement with Arrow Academy, LLC with an effective term through August 2016. The management fee under the agreement is based upon the number of students enrolled in Arrow Academy schools and was approximately \$680,000 for the year ended August 31, 2015 and \$740,000 for the year ended August 31, 2014. Additionally, the business services company that ultimately created and controls Arrow Academy, LLC provided consulting services totaling approximately \$70,000 for the year ended August 31, 2015 and \$176,000 for the year ended August 31, 2014.

NOTE 4 – NOTES PAYABLE

Arrow Academy has entered into two notes payable with a bank for the purchase of computer equipment to be utilized by the students. The notes are collateralized by the equipment purchased. Interest is fixed at a rate of 4.5% for both notes. Interest expense was approximately \$8,630 in 2015 and \$21,700 in 2014. The principal payment of \$30,763 at August 31, 2015 is due in 2016.

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following

	<u>2015</u>	<u>2014</u>
State ownership interest:		
Property and equipment, net of related liabilities	\$ 337,693	\$ 262,338
School operations	1,161,484	1,362,723
Property and equipment, net of related debt, purchased with federal awards	122,285	185,297
Undesignated	<u>907,289</u>	<u>74,896</u>
Total unrestricted net assets	<u>\$ 2,528,751</u>	<u>\$ 1,885,254</u>

NOTE 6 – GOVERNMENT GRANTS

Arrow Academy is the recipient of government grants from various federal and state agencies. Arrow Academy has a charter with the Texas Education Agency which provides significant funding for school operations. Should the charter not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Government grants include the following:

	<u>2015</u>	<u>2014</u>
State grants:		
Texas Education Agency Foundation School Program	\$ 7,009,978	\$ 7,325,918
Textbook and Kindergarten Materials	37,288	129,410
Other state revenue	<u>2,946</u>	<u>2,891</u>
Total state grants	<u>7,050,212</u>	<u>7,458,219</u>
Federal grants:		
U. S. Department of Agriculture	436,439	481,717
U. S. Department of Education	<u>950,076</u>	<u>666,291</u>
Total federal grants	<u>1,386,515</u>	<u>1,148,008</u>
Total government grants	<u>\$ 8,436,727</u>	<u>\$ 8,606,227</u>

The grants from government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Arrow Academy with the terms of the contracts. Management believes such disallowances, if any, would not be material to Arrow Academy's financial position or changes in net assets.

NOTE 7 – LEASE COMMITMENTS

Arrow Academy leases facilities and certain equipment under noncancelable operating leases. Future minimum lease payments are due as follows:

2016	\$ 349,074
2017	369,074
2018	136,264
2019	<u>136,264</u>
Total	<u>\$ 990,676</u>

Rental expense was approximately \$448,000 and \$445,000 in 2015 and 2014, respectively.

NOTE 8 – MULTIEMPLOYER PENSION PLAN

Arrow Academy's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan.

For 2015, plan members contribute 6.7% of their annual covered salary, Arrow Academy contributes 6.8% for new members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, Arrow Academy makes a 1.5% non-OASDI payment on all TRS eligible employees. Arrow Academy's contributions do not represent more than 5% of the pension plan's total contributions.

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

The following presents information about the multiemployer pension plan as of August 31, 2015:

NAME OF THE PENSION FUND	EIN AND PLAN NUMBER, IF AVAILABLE	TOTAL PLAN ASSETS	ACCUMULATED BENEFIT OBLIGATIONS	FUNDING PERCENTAGE	CONTRIBUTIONS YEAR ENDED AUGUST 31, 2015	CONTRIBUTIONS YEAR ENDED AUGUST 31, 2014
Teacher Retirement System of Texas	N/A	\$157 billion	\$159.5 billion	83.25%	\$187,852	\$138,824

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 21, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Financial Position as of August 31, 2015 and 2014

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)
Supplemental Statements of Financial Position as of August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash	\$ 917,154	\$ 352,563
Prepaid expenses and other assets	<u>13,500</u>	<u>13,500</u>
Total current assets	930,654	366,063
Other assets	<u>90,500</u>	<u>104,000</u>
TOTAL ASSETS	<u>\$ 1,021,154</u>	<u>\$ 470,063</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Due to Charter #021805	\$ 133,978	\$ 155,748
Payable to affiliates		
Total liabilities	<u>133,978</u>	<u>398,199</u>
Net assets:		
Unrestricted	<u>887,176</u>	<u>71,864</u>
Total net assets	<u>887,176</u>	<u>71,864</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,021,154</u>	<u>\$ 470,063</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2015 and 2014

		TOTALS		
	UNRESTRICTED	TEMPORARILY RESTRICTED	2015	2014
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 302,752	\$ 222	\$ 302,974	\$ 165,986
5750 Co-curriculum/enterprising	<u>500</u>	<u>48,168</u>	<u>48,668</u>	<u>23,094</u>
Total local support	<u>303,252</u>	<u>48,390</u>	<u>351,642</u>	<u>189,080</u>
State program revenue:				
5810 Foundation School Program Act Revenue	7,009,978		7,009,978	7,325,918
5820 State program revenue distributed by				
Texas Education Agency				
Total state program revenue	<u>40,234</u>	<u>40,234</u>	<u>7,050,212</u>	<u>132,301</u>
Federal program revenue:				
5920 Federal revenue distributed by the				
State of Texas Education Agency				
Total federal program revenue	<u>1,386,515</u>	<u>1,386,515</u>	<u>7,458,219</u>	
Net assets released from restrictions:				
Capital expenditures	55,086	(55,086)		
Debt principal payments	292,418	(292,418)		
Program expenditures	<u>8,050,194</u>	<u>(8,050,194)</u>		
Total revenue	<u>8,700,950</u>	<u>87,419</u>	<u>8,788,369</u>	<u>8,795,307</u>

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2015 and 2014

(continued)

		UNRESTRICTED	TEMPORARILY RESTRICTED	2015	TOTALS	2014
EXPENSES:						
11	Instruction	4,926,697		4,926,697		4,261,970
13	Curriculum development and instructional staff development	711,250		711,250		479,775
21	Instructional leadership	10,890		10,890		8,896
23	School leadership	951,772		951,772		779,887
31	Guidance counseling and evaluation services	36,872		36,872		30,077
33	Health services	3,025		3,025		2,412
34	Student transportation	1,448		1,448		41,125
35	Food services	614,536		614,536		746,578
41	General administration	607,702		607,702		577,200
51	Plant maintenance and operations	957,243		957,243		1,006,606
53	Data processing services	58,194		58,194		53,352
61	Community services	11,703		11,703		5,000
71	Debt service	8,630		8,630		21,649
81	Fundraising	60,222		60,222		
	Total expenses	8,960,184		8,960,184		8,014,527
CHANGES IN NET ASSETS						
	Net assets, beginning of year	(259,234)		87,419	(171,815)	780,780
	Net assets, end of year	768,088		1,045,302	1,813,390	1,032,610
		\$ 508,854		\$ 1,132,721	\$ 1,641,575	\$ 1,813,390

NOTE – The supplemental statement of activities by function is presented in accordance with the requirements of the Texas Education Agency *Special Supplement to the Financial Accountability System Resource Guide for Charter Schools* and the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts* that requires federal and state program revenue to be classified as temporarily restricted net assets until expended pursuant to applicable statutes, regulations, and grant requirements.

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder) Supplemental Statements of Activities by Function for the years ended August 31, 2015 and 2014

		TOTALS		
	UNRESTRICTED	TEMPORARILY RESTRICTED	2015	2014
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 771,386	\$ 100,000	\$ 871,386	\$ 105,722
Total local support	<u>771,386</u>	<u>100,000</u>	<u>871,386</u>	<u>105,722</u>
Net assets released from restrictions:				
Restrictions satisfied by payments				
Total revenue	<u>100,000</u>	<u>(100,000)</u>	<u>871,386</u>	<u>105,722</u>
EXPENSES:				
41 General administration	5,821		5,821	5,393
81 Fundraising	<u>50,253</u>		<u>50,253</u>	<u>175,690</u>
Total expenses	<u>56,074</u>		<u>56,074</u>	<u>181,083</u>
CHANGES IN NET ASSETS				
Net assets, beginning of year			815,312	(75,361)
Net assets, end of year	<u>\$ 887,176</u>	<u>\$ 0</u>	<u>\$ 71,864</u>	<u>147,225</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Cash Flows for the years ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (171,815)	\$ 780,780
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	330,906	310,356
Changes in operating assets and liabilities:		
Government grants and other receivables	146,922	(454,988)
Due from (to) Leadership Education Foundation	21,770	(155,748)
Prepaid expenses and other assets	(3,511)	(60,303)
Accounts payable and accrued expenses	(244,893)	205,938
Accrued payroll expenses	(19,009)	(13,477)
Payable to affiliates	<u>(7,872)</u>	<u>996</u>
Net cash provided by operating activities	<u>52,498</u>	<u>613,554</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of furniture and equipment	<u>(55,086)</u>	<u>(152,396)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of notes payable	<u>(292,418)</u>	<u>(279,399)</u>
NET CHANGE IN CASH		
Cash, beginning of year	<u>929,322</u>	<u>747,563</u>
Cash, end of year	<u>\$ 634,316</u>	<u>\$ 929,322</u>

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Cash Flows for the years ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 815,312	\$ (75,361)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Due from (to) Charter #021805	(21,770)	155,748
Prepaid expenses and other assets	13,500	(117,500)
Payable to affiliates	<u>(242,451)</u>	<u>175,690</u>
Net cash provided by operating activities	<u>564,591</u>	<u>138,577</u>
NET CHANGE IN CASH		
Cash, beginning of year	<u>352,563</u>	<u>213,986</u>
Cash, end of year	<u><u>\$ 917,154</u></u>	<u><u>\$ 352,563</u></u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Expenses for the years ended August 31, 2015 and 2014

		<u>2015</u>	<u>2014</u>
6100	Payroll costs	\$ 5,760,979	\$ 4,510,177
6200	Professional and contracted services	2,270,217	2,360,597
6300	Supplies and materials	413,022	678,724
6400	Other operating costs	507,336	443,380
6500	Interest expense	<u>8,630</u>	<u>21,649</u>
Total		<u>\$ 8,960,184</u>	<u>\$ 8,014,527</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Capital Assets as of August 31, 2015 and 2014

2015			
OWNERSHIP INTEREST			
	<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1110 Cash		\$ 634,316	\$ 634,316
1549 Furniture and equipment	\$ 6,660	1,257,893	\$ 342,914
1570 Accumulated depreciation	<u>(2,405)</u>	<u>(889,437)</u>	<u>(220,629)</u>
Total	<u><u>\$ 4,255</u></u>	<u><u>\$ 1,002,772</u></u>	<u><u>\$ 122,285</u></u>
			<u><u>\$ 1,129,312</u></u>

2014			
OWNERSHIP INTEREST			
	<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1110 Cash		\$ 929,322	\$ 929,322
1549 Furniture and equipment	\$ 6,660	1,202,807	\$ 342,914
1570 Accumulated depreciation	<u>(740)</u>	<u>(623,208)</u>	<u>(157,617)</u>
Total	<u><u>\$ 5,920</u></u>	<u><u>\$ 1,508,921</u></u>	<u><u>\$ 185,297</u></u>
			<u><u>\$ 1,700,138</u></u>

Leadership Education Foundation – Arrow Academy

Charter #021805
Budgetary Comparison Schedule for the year ended August 31, 2015

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FROM FINAL BUDGET
	ORIGINAL	FINAL		
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 490,184	\$ 494,184	\$ 302,974	\$ (191,210)
5750 Co-curriculum/enterprising	<u>24,800</u>	<u>24,800</u>	<u>48,668</u>	<u>23,868</u>
Total local support	<u>514,984</u>	<u>518,984</u>	<u>351,642</u>	<u>(167,342)</u>
State program revenue:				
5810 Foundation School Program Act Revenue	7,832,438	7,049,292	7,009,978	(39,314)
5820 State program revenue distributed by				
Texas Education Agency	<u>83,403</u>	<u>83,403</u>	<u>40,234</u>	<u>(43,169)</u>
Total state program revenue	<u>7,915,841</u>	<u>7,132,695</u>	<u>7,050,212</u>	<u>(82,483)</u>
Federal program revenue:				
5920 Federal revenue distributed by the				
State of Texas Education Agency	<u>1,577,763</u>	<u>1,832,376</u>	<u>1,386,515</u>	<u>(445,861)</u>
Total federal program revenue	<u>1,577,763</u>	<u>1,832,376</u>	<u>1,386,515</u>	<u>(445,861)</u>
Total revenue	<u>10,008,588</u>	<u>9,484,055</u>	<u>8,788,369</u>	<u>(695,686)</u>

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2015

(continued)

		BUDGETED AMOUNTS	ACTUAL AMOUNTS	VARIANCE FROM FINAL BUDGET
		ORIGINAL	FINAL	
EXPENSES:				
11	Instruction	5,197,779	5,239,460	4,926,697 (312,763)
13	Curriculum development and instructional staff development	861,388	1,066,259	711,250 (355,009)
21	Instructional leadership	213,316	14,652	10,890 (3,762)
23	School leadership	956,863	1,016,318	951,772 (64,546)
31	Guidance counseling and evaluation services	29,148	48,706	36,872 (11,834)
33	Health services	1,950	5,000	3,025 (1,975)
34	Student transportation		1,750	1,448 (302)
35	Food services	894,771	836,619	614,536 (222,083)
41	General administration	726,638	656,638	607,702 (48,936)
51	Plant maintenance and operations	1,017,150	1,071,200	957,243 (113,957)
53	Data processing services	59,028	70,000	58,194 (11,806)
61	Community services	12,000	17,000	11,703 (5,297)
71	Debt service	15,000	15,000	8,630 (6,370)
81	Fundraising	60,000	65,000	60,222 (4,778)
	Total expenses	10,045,031	10,123,602	8,960,184 (1,163,418)
CHANGES IN NET ASSETS				
	Net assets, beginning of year			467,732
	Net assets, end of year			
		\$ 1,776,947	\$ 1,173,843	\$ 1,641,575 467,732
		1,813,390	1,813,390	1,813,390

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2015

FEDERAL GRANTOR

<u>Pass-through Grantor</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Award Amount</u>	<u>Revenue</u>	<u>Expenses</u>
<u>Program Title & Period</u>					
U. S. DEPARTMENT OF AGRICULTURE					
Passed through Texas Education Agency:					
(A) #1 School Breakfast Program 10/01/13 – 09/30/14	10.553	71401401	N/A	\$ 14,096	\$ 14,096
(A) #2 School Breakfast Program 10/01/14 – 09/30/15	10.553	71401501	N/A	93,058	93,058
(A) #3 National School Lunch Program 10/01/13 – 09/30/14	10.555	71301401	N/A	36,621	36,621
(A) #4 National School Lunch Program 10/01/14 – 09/30/15	10.555	71301501	N/A	260,950	260,950
Passed through The Healthy Lunchbox:					
(A) #5 National School Lunch Program (Food Commodities) 07/01/14 – 06/30/15	10.555	N/A	N/A	31,714	31,714
Total U. S. Department of Agriculture					
				<u>436,439</u>	<u>436,439</u>

U. S. DEPARTMENT OF EDUCATION

Passed through Texas Education Agency:

#6 Title I, Part A, Grants to Local Educational Agencies 08/15/13 – 09/30/14	84.010	14-610101-021805	\$275,132	15,390	15,390
#7 Title I, Part A, Grants to Local Educational Agencies 07/22/14 – 09/30/15	84.010	15-610101-021805	\$312,998	287,155	287,155
#8 Title I, 1003(a), Grants to Local Educational Agencies, Priority and Focus School Grants 03/19/14 – 09/30/14	84.010	14-610112-021805	\$664,000	57,365	57,365
#9 Title I, 1003(a), Grants to Local Educational Agencies, Priority and Focus School Grants 10/14/14 – 09/30/15	84.010	15-610112-021805	\$893,504	521,783	521,783
#10 Grants to States (IDEA-B), Special Education 07/22/14 – 09/30/15	84.027	15-660001-021805	\$12,637	12,637	12,637
#11 Grants to States (IDEA-B), Special Education 07/22/14 – 09/30/15	84.027	15-660002-021805	\$9,875	9,875	9,875
#12 Title II, Part A, Improving Teacher Quality State Grants 08/15/13 – 09/30/14	84.367	14-694501-021805	\$50,943	8,720	8,720
#13 Title II, Part A, Improving Teacher Quality State Grants 07/22/14 – 09/30/15	84.367	15-694501-021805	\$50,671	25,193	25,193
#14 Title VI, Part A, Grants for State Assessments and Related Activities 09/01/14 – 08/31/15	84.369	15-695514-021805	\$2,226	2,226	2,226

(continued)

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2015 *(continued)*

FEDERAL GRANTOR

<u>Pass-through Grantor</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Award Amount</u>	<u>Revenue</u>	<u>Expenses</u>
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U. S. DEPARTMENT OF EDUCATION *(continued)*

Passed through Region VI Educational Service Center:

#15 Title III, Part A, English Language Acquisition State Grants					
09/01/14 – 09/30/15	84.365	15-671001-236950	\$9,732	9,732	9,732

Total U. S. Department of Education			950,076	950,076	
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TOTAL FEDERAL AWARDS			\$1,386,515	\$1,386,515	
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(A) Child Nutrition Cluster

See accompanying notes to schedule of expenditures of federal awards.

Leadership Education Foundation – Arrow Academy

Notes to Schedule of Expenditures of Federal Awards for the year ended August 31, 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Allowable expenses include only amounts paid with federal funds. 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*. Allowable expenses are determined according to the standards of Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, and are recognized in Arrow Academy's financial statements in conformity with generally accepted accounting principles.

NOTE 2 – SUMMARY BY CFDA NUMBER

Federal funds expended by Arrow Academy, by CFDA number or CFDA cluster are summarized as follows:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>	<u>Amount</u>
10.553, 10.555	Child Nutrition Cluster	\$ 436,439
84.010	Title I, Part A, Grants to Local Educational Agencies	881,693
84.027	Grants to States (IDEA-B)	22,512
84.365	Title III, Part A, English Language Acquisition State Grants	9,732
84.367	Title II, Part A, Improving Teacher Quality State Grants	33,913
84.369	Title VI, Part A, Grants for State Assessments and Related Activities	2,226
Total		<u>\$ 1,386,515</u>

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' 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
Leadership Education Foundation – Arrow 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 Leadership Education Foundation – Arrow Academy (Arrow Academy), which comprise the statement of financial position as of August 31, 2015 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arrow 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 Arrow Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Arrow Academy'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 Arrow 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

January 21, 2016

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors of
Leadership Education Foundation – Arrow Academy:

Report on Compliance for Each Major Federal Program

We have audited Leadership Education Foundation – Arrow Academy's (Arrow Academy) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arrow Academy's major federal programs for the year ended August 31, 2015. Arrow Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Arrow 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 Arrow Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Arrow Academy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

Report on Internal Control Over Compliance

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

A handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style with a slight flourish at the end.

January 21, 2016

Leadership Education Foundation – Arrow Academy

Schedule of Findings and Questioned Costs for the year ended August 31, 2015

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with §.510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>
-----------------------	-----------------------------------

Child Nutrition Cluster:

10.553	National School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with §.510(a) of OMB Circular A-133.