

**Leadership Education Foundation –
Arrow Academy**

Financial Statements
and Single Audit Reports
for the year ended August 31, 2016

Leadership Education Foundation – Arrow Academy

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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, 2016 and 2015 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, 2016 and 2015 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, 2016 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 17, 2017 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 ampersand between "Blazek" and "Vetterling".

January 17, 2017

Leadership Education Foundation – Arrow Academy

Statements of Financial Position as of August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 1,553,721	\$ 1,551,470
Government grants and other receivables	618,587	753,401
Prepaid expenses and other assets	<u>107,640</u>	<u>152,216</u>
Total current assets	2,279,948	2,457,087
Other assets	50,000	90,500
Furniture and equipment, net (<i>Note 2</i>)	<u>334,869</u>	<u>494,996</u>
TOTAL ASSETS	<u>\$ 2,664,817</u>	<u>\$ 3,042,583</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 179,652	\$ 117,307
Accrued payroll expenses	293,887	300,211
Accounts payable to affiliates (<i>Note 3</i>)	38,147	65,551
Current portion of notes payable (<i>Note 4</i>)	<u>30,763</u>	<u>30,763</u>
Total current liabilities	<u>511,686</u>	<u>513,832</u>
Commitments (<i>Note 7</i>)		
Unrestricted net assets (<i>Note 5</i>)	<u>2,153,131</u>	<u>2,528,751</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,664,817</u>	<u>\$ 3,042,583</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statement of Activities for the year ended August 31, 2016

	<u>TOTAL</u>
REVENUE:	
Government grants (<i>Note 6</i>)	\$ 6,262,551
Food service and other fees	<u>64,660</u>
Total revenue	<u>6,327,211</u>
EXPENSES:	
Program expenses:	
Instructional	5,649,590
Auxiliary services	<u>556,980</u>
Total program expenses	6,206,570
General and administrative	<u>496,261</u>
Total expenses	<u>6,702,831</u>
CHANGES IN UNRESTRICTED NET ASSETS	(375,620)
Unrestricted net assets, beginning of year	<u>2,528,751</u>
Unrestricted net assets, end of year	<u>\$ 2,153,131</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

Statements of Cash Flows for the years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (375,620)	\$ 643,497
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	201,706	330,906
Changes in operating assets and liabilities:		
Government grants and other receivables	134,814	146,922
Prepaid expenses and other assets	85,076	9,989
Loss on disposal of furniture and equipment	1,371	
Accounts payable and accrued expenses	62,345	(244,893)
Accrued payroll expenses	(6,324)	(19,009)
Accounts payable to affiliates	<u>(27,404)</u>	<u>(250,323)</u>
Net cash provided by operating activities	<u>75,964</u>	<u>617,089</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of furniture and equipment	(59,150)	(55,086)
Proceeds from sale of furniture and equipment	<u>16,200</u>	<u></u>
Net cash used by investing activities	<u>(42,950)</u>	<u>(55,086)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of notes payable	<u>(30,763)</u>	<u>(292,418)</u>
NET CHANGE IN CASH		
Cash, beginning of year	<u>2,251</u>	<u>269,585</u>
Cash, end of year	<u><u>\$ 1,553,721</u></u>	<u><u>\$ 1,551,470</u></u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$141	\$8,630

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Notes to Financial Statements for the years ended August 31, 2016 and 2015

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. Five schools were in operation located in Houston and Bryan, Texas, serving approximately 540 students from kindergarten through 8th grades for the 2015-2016 school year. At the end of the 2015-2016 school year, one of the seven schools was closed. 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).

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.

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>2016</u>	<u>2015</u>
Furniture and equipment, at cost	\$ 1,649,046	\$ 1,607,467
Accumulated depreciation	<u>(1,314,177)</u>	<u>(1,112,471)</u>
Furniture and equipment, net	<u>\$ 334,869</u>	<u>\$ 494,996</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 2017. The management fee under the agreement is based upon the number of students enrolled in Arrow Academy schools and was approximately \$427,000 for the year ended August 31, 2016 and \$680,000 for the year ended August 31, 2015. 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.

NOTE 4 – NOTES PAYABLE

Arrow Academy entered into two notes payable with a bank for the purchase of computer equipment to be utilized by the students. The notes were collateralized by the equipment purchased. Interest was fixed at a rate of 4.5% for both notes. Interest expense was approximately \$141 in 2016 and \$8,630 in 2015. The remaining principal of \$30,763 at August 31, 2015 was paid in 2016.

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
State ownership interest:		
Property and equipment, net of related liabilities	\$ 202,181	\$ 337,693
School operations	1,076,645	1,132,721
Federal ownership interest:		
Property and equipment	70,948	122,285
Undesignated	<u>803,357</u>	<u>936,052</u>
Total unrestricted net assets	<u><u>\$ 2,153,131</u></u>	<u><u>\$ 2,528,751</u></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>2016</u>	<u>2015</u>
State grants:		
Texas Education Agency Foundation School Program	\$ 4,804,210	\$ 7,009,978
Textbook and Kindergarten Materials	59,812	37,288
Other state revenue	<u>2,784</u>	<u>2,946</u>
Total state grants	<u><u>4,866,806</u></u>	<u><u>7,050,212</u></u>
Federal grants:		
U. S. Department of Agriculture	257,096	436,439
U. S. Department of Education	<u>1,138,649</u>	<u>950,076</u>
Total federal grants	<u><u>1,395,745</u></u>	<u><u>1,386,515</u></u>
Total government grants	<u><u>\$ 6,262,551</u></u>	<u><u>\$ 8,436,727</u></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 noncancellable operating leases. Future minimum lease payments are due as follows:

2017	\$ 387,056
2018	246,264
2019	321,264
2020	315,000
2021	<u>330,000</u>
Total	<u>\$ 1,599,584</u>

Rental expense was approximately \$394,000 and \$448,000 in 2016 and 2015, 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. All risks and costs are not shared by Arrow Academy, but are the liability of the State of Texas. For 2016, plan members contribute 7.2% 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. Arrow Academy contributed \$151,334 to the plan during fiscal year 2016, equal to the required contribution for the year. Arrow Academy contributed \$187,852 to the plan during fiscal year 2015, equal to the required contribution for the year.

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.

Total TRS plan assets as of August 31, 2015 were \$149.8 billion. Accumulated benefit obligations as of August 31, 2015 were \$163.9 billion. The plan was 78.43% funded at August 31, 2015.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 17, 2017, 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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 776,462	\$ 634,316
Government grants and other receivables	618,587	753,401
Due from Charter Holder	26,556	133,978
Prepaid expenses and other assets	<u>107,640</u>	<u>138,716</u>
Total current assets	1,529,245	1,660,411
Furniture and equipment, net	<u>334,869</u>	<u>494,996</u>
TOTAL ASSETS	<u>\$ 1,864,114</u>	<u>\$ 2,155,407</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 179,652	\$ 117,307
Accrued payroll expenses	293,887	300,211
Payable to affiliates	38,147	65,551
Current portion of notes payable	<u>30,763</u>	<u>30,763</u>
Total current liabilities	<u>511,686</u>	<u>513,832</u>
Net assets:		
Unrestricted	275,783	508,854
Temporarily restricted	<u>1,076,645</u>	<u>1,132,721</u>
Total net assets	<u>1,352,428</u>	<u>1,641,575</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,864,114</u>	<u>\$ 2,155,407</u>

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Financial Position as of August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 777,259	\$ 917,154
Prepaid expenses and other assets	<u>13,500</u>	
Total current assets	777,259	930,654
Other assets	<u>50,000</u>	<u>90,500</u>
TOTAL ASSETS	<u>\$ 827,259</u>	<u>\$ 1,021,154</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Due to Charter #021805	\$ 26,556	\$ 133,978
Unrestricted net assets	<u>800,703</u>	<u>887,176</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 827,259</u>	<u>\$ 1,021,154</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2016 and 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	
			<u>2016</u>	<u>2015</u>
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 50,208	\$ 261	\$ 50,469	\$ 302,974
5750 Co-curriculum/enterprising		40,749	40,749	48,668
Total local support	<u>50,208</u>	<u>41,010</u>	<u>91,218</u>	<u>351,642</u>
State program revenue:				
5810 Foundation School Program Act Revenue		4,804,210	4,804,210	7,009,978
5820 State program revenue distributed by Texas Education Agency		62,596	62,596	40,234
Total state program revenue		<u>4,866,806</u>	<u>4,866,806</u>	<u>7,050,212</u>
Federal program revenue:				
5920 Federal revenue distributed by the State of Texas Education Agency		1,395,745	1,395,745	1,386,515
Total federal program revenue		<u>1,395,745</u>	<u>1,395,745</u>	<u>1,386,515</u>
Net assets released from restrictions:				
Debt principal payments	30,763	(30,763)		
Program expenditures	<u>6,328,874</u>	<u>(6,328,874)</u>		
Total revenue	<u>6,409,845</u>	<u>(56,076)</u>	<u>6,353,769</u>	<u>8,788,369</u>

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2016 and 2015

(continued)

		<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	TOTALS	
				<u>2016</u>	<u>2015</u>
EXPENSES:					
11	Instruction	3,497,312		3,497,312	4,926,697
13	Curriculum development and instructional staff development	538,694		538,694	711,250
21	Instructional leadership	114,648		114,648	10,890
23	School leadership	676,297		676,297	951,772
31	Guidance counseling and evaluation services	173,271		173,271	36,872
33	Health services	875		875	3,025
34	Student transportation	3,687		3,687	1,448
35	Food services	401,983		401,983	614,536
41	General administration	441,326		441,326	607,702
51	Plant maintenance and operations	752,179		752,179	957,243
53	Data processing services	42,503		42,503	58,194
61	Community services				11,703
71	Debt service	141		141	8,630
81	Fundraising				<u>60,222</u>
Total expenses		<u>6,642,916</u>		<u>6,642,916</u>	<u>8,960,184</u>
CHANGES IN NET ASSETS					
		(233,071)	(56,076)	(289,147)	(171,815)
	Net assets, beginning of year	<u>508,854</u>	<u>1,132,721</u>	<u>1,641,575</u>	<u>1,813,390</u>
	Net assets, end of year	<u>\$ 275,783</u>	<u>\$ 1,076,645</u>	<u>\$ 1,352,428</u>	<u>\$ 1,641,575</u>

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, 2016 and 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	
			<u>2016</u>	<u>2015</u>
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ (26,558)		\$ (26,558)	\$ 871,386
Total local support	(26,558)		(26,558)	871,386
Total revenue	(26,558)		(26,558)	871,386
EXPENSES:				
41 General administration	5,915		5,915	5,821
51 Plant maintenance and operations	54,000		54,000	
81 Fundraising				50,253
Total expenses	59,915		59,915	56,074
CHANGES IN NET ASSETS				
	(86,473)		(86,473)	815,312
Net assets, beginning of year	887,176		887,176	71,864
Net assets, end of year	\$ 800,703	\$ 0	\$ 800,703	\$ 887,176

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Cash Flows for the years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (289,147)	\$ (171,815)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	201,706	330,906
Changes in operating assets and liabilities:		
Government grants and other receivables	134,814	146,922
Due from Charter Holder	107,422	21,770
Prepaid expenses and other assets	31,076	(3,511)
Loss on disposal of furniture and equipment	1,371	
Accounts payable and accrued expenses	62,345	(244,893)
Accrued payroll expenses	(6,324)	(19,009)
Payable to affiliates	<u>(27,404)</u>	<u>(7,872)</u>
Net cash provided by operating activities	<u>215,859</u>	<u>52,498</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of furniture and equipment	(59,150)	(55,086)
Proceeds from sale of furniture and equipment	<u>16,200</u>	<u></u>
Net cash used by investing activities	<u>(42,950)</u>	<u>(55,086)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of notes payable	<u>(30,763)</u>	<u>(292,418)</u>
NET CHANGE IN CASH		
Cash, beginning of year	<u>634,316</u>	<u>929,322</u>
Cash, end of year	<u>\$ 776,462</u>	<u>\$ 634,316</u>

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Cash Flows for the years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (86,473)	\$ 815,312
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Changes in operating assets and liabilities:		
Due from Charter #021805	(107,422)	(21,770)
Prepaid expenses and other assets	54,000	13,500
Accounts payable to affiliates	<u>(242,451)</u>	<u>564,591</u>
Net cash provided (used) by operating activities	<u>(139,895)</u>	<u>564,591</u>
NET CHANGE IN CASH	(139,895)	564,591
Cash, beginning of year	<u>917,154</u>	<u>352,563</u>
Cash, end of year	<u>\$ 777,259</u>	<u>\$ 917,154</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Expenses for the years ended August 31, 2016 and 2015

		<u>2016</u>	<u>2015</u>
6100	Payroll costs	\$ 4,336,266	\$ 5,760,979
6200	Professional and contracted services	1,574,426	2,270,217
6300	Supplies and materials	363,706	413,022
6400	Other operating costs	368,377	507,336
6500	Interest expense	<u>141</u>	<u>8,630</u>
Total		<u><u>\$ 6,642,916</u></u>	<u><u>\$ 8,960,184</u></u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Capital Assets as of August 31, 2016 and 2015

2016			
OWNERSHIP INTEREST			
	<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1110 Cash		\$ 776,462	\$ 776,462
1549 Furniture and equipment	\$ 65,810	1,240,322	\$ 342,914
1570 Accumulated depreciation	<u>(4,070)</u>	<u>(1,038,141)</u>	<u>(271,966)</u>
Total	<u>\$ 61,740</u>	<u>\$ 978,643</u>	<u>\$ 70,948</u>
			<u>\$ 1,111,331</u>

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>\$ 4,255</u>	<u>\$ 1,002,772</u>	<u>\$ 122,285</u>
			<u>\$ 1,129,312</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FROM FINAL</u> <u>BUDGET</u>
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 122,840	\$ 111,500	\$ 50,469	\$ (61,031)
5750 Co-curriculum/enterprising	<u>40,300</u>	<u>40,720</u>	<u>40,749</u>	<u>29</u>
Total local support	<u>163,140</u>	<u>152,220</u>	<u>91,218</u>	<u>(61,002)</u>
State program revenue:				
5810 Foundation School Program Act Revenue	4,641,941	4,805,574	4,804,210	(1,364)
5820 State program revenue distributed by Texas Education Agency	<u>147,102</u>	<u>147,102</u>	<u>62,596</u>	<u>(84,506)</u>
Total state program revenue	<u>4,789,043</u>	<u>4,952,676</u>	<u>4,866,806</u>	<u>(85,870)</u>
Federal program revenue:				
5920 Federal revenue distributed by the State of Texas Education Agency	<u>1,444,576</u>	<u>1,405,116</u>	<u>1,395,745</u>	<u>(9,371)</u>
Total federal program revenue	<u>1,444,576</u>	<u>1,405,116</u>	<u>1,395,745</u>	<u>(9,371)</u>
Total revenue	<u>6,396,759</u>	<u>6,510,012</u>	<u>6,353,769</u>	<u>(156,243)</u>

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2016

(continued)

		BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FROM FINAL BUDGET
		ORIGINAL	FINAL		
EXPENSES:					
11	Instruction	3,553,355	3,791,369	3,497,312	(294,057)
13	Curriculum development and instructional staff development	546,302	547,482	538,694	(8,788)
21	Instructional leadership	112,644	118,652	114,648	(4,004)
23	School leadership	623,971	672,435	676,297	3,862
31	Guidance counseling and evaluation services	159,046	176,529	173,271	(3,258)
33	Health services	2,140	2,140	875	(1,265)
34	Student transportation	1,500	5,130	3,687	(1,443)
35	Food services	448,961	413,119	401,983	(11,136)
41	General administration	486,877	463,570	441,326	(22,244)
51	Plant maintenance and operations	736,289	781,281	752,179	(29,102)
53	Data processing services	38,465	48,670	42,503	(6,167)
61	Community services	2,000	7,000		(7,000)
71	Debt service	15,000	500	141	(359)
	Total expenses	6,726,550	7,027,877	6,642,916	(384,961)
CHANGES IN NET ASSETS					
		(329,791)	(517,865)	(289,147)	228,718
	Net assets, beginning of year	1,641,575	1,641,575	1,641,575	
	Net assets, end of year	\$ 1,311,784	\$ 1,123,710	\$ 1,352,428	\$ 228,718

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2016

FEDERAL GRANTOR

<u>Pass-through Grantor</u> <u>Program Title & Period</u>	<u>CFDA</u> <u>Number</u>	<u>Grant</u> <u>Number</u>	<u>Award</u> <u>Amount</u>	<u>Federal</u> <u>Revenue</u>	<u>Expenditures</u>
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U. S. DEPARTMENT OF AGRICULTURE

Passed through Texas Education Agency:

(A) #1 School Breakfast Program 10/01/14 – 09/30/15	10.553	71401501	N/A	\$ 7,890	\$ 7,890
(A) #2 School Breakfast Program 10/01/15 – 09/30/16	10.553	71401601	N/A	50,104	50,104
(A) #3 National School Lunch Program 10/01/14 – 09/30/15	10.555	71301501	N/A	20,615	20,615
(A) #4 National School Lunch Program 10/01/15 – 09/30/16	10.555	71301601	N/A	148,986	148,986

Passed through The Healthy Lunchbox:

(A) #5 National School Lunch Program (Food Commodities) 07/01/15 – 06/30/16	10.555	N/A	N/A	<u>29,501</u>	<u>29,501</u>
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Total U. S. Department of Agriculture				<u>257,096</u>	<u>257,096</u>
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U. S. DEPARTMENT OF EDUCATION

Passed through Texas Education Agency:

#6 Grants to Local Educational Agencies, Title I, Part A 08/29/15 – 09/30/16	84.010	16-610101-021805	\$307,741	272,857	272,857
#7 Grants to Local Educational Agencies, Priority and Focus School Grants, Title I, 1003(a) 10/14/14 – 09/30/15	84.010	15-610112-021805	\$661,811	21,088	21,088
#8 Grants to Local Educational Agencies, Priority and Focus School Grants, Title I, 1003(a) 10/14/15 – 09/30/16	84.010	16-610112-021805	\$855,728	498,819	498,819
#9 Grants to Local Educational Agencies, Priority and Focus School Grants, Title I, 1003(a) 09/21/16 – 09/30/17	84.010	17-610112-021805	\$263,866	23,573	23,573
(B) #10 Special Education, Grants to States 09/11/15 – 09/30/16	84.027	16-660001-021805	\$381,604	229,282	229,282
(B) #11 Special Education, Grants to States 01/14/16 – 08/31/16	84.027	16-660002-021805	\$75,000	65,125	65,125
(B) #12 Special Education, Preschool Grants 09/11/15 – 09/30/16	84.173	15-661001-021805	\$7,244	1,767	1,767
#13 Supporting Effective Instruction State Grant 07/22/14 – 09/30/15	84.367	15-694501-021805	\$50,671	8,750	8,750

(continued)

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2016 *(continued)*

FEDERAL GRANTOR

<u>Pass-through Grantor</u> <u>Program Title & Period</u>	<u>CFDA</u> <u>Number</u>	<u>Grant</u> <u>Number</u>	<u>Award</u> <u>Amount</u>	<u>Federal</u> <u>Revenue</u>	<u>Expenditures</u>
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U. S. DEPARTMENT OF EDUCATION *(continued)*

#14 Supporting Effective Instruction State Grant 08/29/15 – 09/30/16	84.367	16-694501-021805	\$60,405	13,527	13,527
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Passed through Region VI Educational Service Center:

#15 English Language Acquisition State Grants, Title III, Part A 08/29/15 – 09/30/16	84.365	16-671001-236950	\$23,136	3,861	3,861
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Total U. S. Department of Education				1,138,649	1,138,649
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TOTAL FEDERAL AWARDS				\$1,395,745	\$1,395,745
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(A) Child Nutrition Cluster

(B) Special Education 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, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared 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 Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include only allowable costs funded by federal awards. Allowable costs are subject to the cost principles of the Uniform Guidance and the standards of OMB Circular A-122, *Cost Principles for Non-Profit Organizations* and include costs that are recognized in Arrow Academy's financial statements in conformity with generally accepted accounting principles. Arrow Academy has elected not to use the 10% de minimus rate for indirect costs.

Because the schedule presents only a selected portion of the operations of Arrow Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Arrow Academy.

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, School Breakfast and Lunch Programs	\$ 257,096
84.010	Grants to Local Educational Agencies, Title I, Part A	816,337
84.027, 84.173	Special Education Cluster: Grants to States (IDEA-B)	296,174
84.365	English Language Acquisition State Grants, Title III, Part A	3,861
84.367	Improving Teacher Quality State Grants, Title II, Part A	22,277
Total		<u>\$ 1,395,745</u>

**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 17, 2017.

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 17, 2017

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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, 2016. 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 federal statutes, regulations, and the terms and conditions of 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 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 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, 2016.

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 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 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 the Uniform Guidance. 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 17, 2017

Leadership Education Foundation – Arrow Academy

Schedule of Findings and Questioned Costs for the year ended August 31, 2016

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 deficiency(ies) 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 deficiency(ies) 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 2 CFR §200.516(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>	
84.010	Title I, Part A, Grants to Local Education Agencies	
Dollar threshold used to distinguish between Type A and Type B programs:		\$750,000
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> 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 2 CFR §200.516(a).