

**Leadership Education Foundation –
Arrow Academy**

Financial Statements
and Single Audit Reports
for the year ended August 31, 2019

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, 2019 and 2018 and the related statements of activities and of cash flows for the years then ended, the related statement of functional expenses for the year ended August 31, 2019 with comparative totals for the year ended August 31, 2018, 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, 2019 and 2018 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.

Adoption of New Accounting Standard

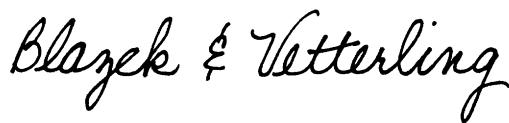
As discussed in Note 2 to the financial statements, Arrow Academy adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended August 31, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

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 12 through 22 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, 2019 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 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 22, 2020 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 solely 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 the effectiveness of Arrow Academy's 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.



January 22, 2020

Leadership Education Foundation – Arrow Academy

Statements of Financial Position as of August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash	\$ 2,212,243	\$ 1,917,289
Government grants and other receivables	456,811	477,700
Prepaid expenses	<u>51,408</u>	<u>105,375</u>
Total current assets	2,720,462	2,500,364
Other assets	113,400	50,000
Furniture and equipment, net (Note 4)	<u>26,060</u>	<u>77,719</u>
TOTAL ASSETS	<u>\$ 2,859,922</u>	<u>\$ 2,628,083</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 193,682	\$ 225,743
Accrued payroll expenses	424,943	381,373
Accounts payable to affiliates (Note 5)	<u>32,328</u>	<u>33,958</u>
Total current liabilities	<u>650,953</u>	<u>641,074</u>
Commitments (Note 8)		
Net assets without donor restrictions (Note 6)	<u>2,208,969</u>	<u>1,987,009</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,859,922</u>	<u>\$ 2,628,083</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statements of Activities for the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE:		
Government grants (<i>Note 7</i>)	\$ 7,605,721	\$ 6,486,866
Other revenue	<u>83,464</u>	<u>97,384</u>
Total revenue	<u>7,689,185</u>	<u>6,584,250</u>
EXPENSES:		
Program services	6,500,079	5,594,001
Management and general	<u>967,146</u>	<u>837,622</u>
Total expenses	<u>7,467,225</u>	<u>6,431,623</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	221,960	152,627
Net assets without donor restrictions, beginning of year	<u>1,987,009</u>	<u>1,834,382</u>
Net assets without donor restrictions, end of year	<u>\$ 2,208,969</u>	<u>\$ 1,987,009</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statement of Functional Expenses for the year ended August 31, 2019 with comparative totals for the year ended August 31, 2018

	PROGRAM <u>SERVICES</u>	MANAGEMENT <u>AND GENERAL</u>	2019 <u>TOTAL EXPENSES</u>	2018 <u>TOTAL EXPENSES</u>
Salaries and employee benefits	\$ 4,321,166	\$ 216,587	\$ 4,537,753	\$ 4,026,087
Contracted services	187,697	571,663	759,360	673,113
Rental expense	660,594	11,872	672,466	567,655
Food services	444,649		444,649	381,553
Supplies	395,507	38,877	434,384	251,641
Maintenance and repairs	130,117		130,117	100,469
Transportation	115,743		115,743	71,442
Utilities	110,655		110,655	88,259
Depreciation	51,659		51,659	109,584
Travel	41,453	5,942	47,395	28,061
Professional fees and dues	863	37,388	38,251	36,163
Insurance		13,796	13,796	28,051
Other	39,976	71,021	110,997	69,545
Total expenses	<u>\$ 6,500,079</u>	<u>\$ 967,146</u>	<u>\$ 7,467,225</u>	<u>\$ 6,431,623</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statements of Cash Flows for the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets without donor restrictions	\$ 221,960	\$ 152,627
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	51,659	109,584
Changes in operating assets and liabilities:		
Government grants and other receivables	20,889	54,185
Prepaid expenses	53,967	(21,041)
Accounts payable and accrued expenses	(32,061)	54,230
Accrued payroll expenses	43,570	45,117
Accounts payable to affiliates	<u>(1,630)</u>	<u>644</u>
Net cash provided by operating activities	<u>358,354</u>	<u>395,346</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Issuance of note receivable	<u>(63,400)</u>	
NET CHANGE IN CASH	294,954	395,346
Cash, beginning of year	<u>1,917,289</u>	<u>1,521,943</u>
Cash, end of year	<u>\$ 2,212,243</u>	<u>\$ 1,917,289</u>

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Notes to Financial Statements for the years ended August 31, 2019 and 2018

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. Four schools were in operation for the 2018-2019 school year located in Houston and Bryan, Texas, serving approximately 695 students from kindergarten through 6th grades. 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.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

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.

Other revenue is recognized in the period in which services are provided.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or management and general. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more programs or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended.

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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Arrow Academy will adopt this ASU in fiscal year 2020 and expects the impact to be primarily limited to additional disclosures.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Arrow Academy is required to apply the amendments in its August 31, 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Arrow Academy anticipates that adoption may impact the classification of certain transactions and additional disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for Arrow Academy for fiscal year 2022. Management expects adoption of this ASU will impact the financial reporting for operating leases and disclosures of the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Arrow Academy adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended August 31, 2018, except that information regarding liquidity and availability of resources and reporting of functional expenses by natural classification has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of August 31, 2019 comprise the following:

Financial assets at August 31, 2019:

Cash	\$ 2,212,243
Government grants and other receivables	456,811
Other assets	<u>21,480</u>
Total financial assets available for general expenditure	<u>\$ 2,690,534</u>

Arrow Academy primarily relies on state and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Arrow Academy considers all expenditures related to its ongoing educational activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of Arrow Academy's liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash.

NOTE 4 – FURNITURE AND EQUIPMENT

Furniture and equipment are comprised of the following:

	<u>2019</u>	<u>2018</u>
Furniture and equipment, at cost	\$ 923,388	\$ 923,388
Accumulated depreciation	<u>(897,328)</u>	<u>(845,669)</u>
Furniture and equipment, net	<u>\$ 26,060</u>	<u>\$ 77,719</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 to be 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 5 – 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 2020. The management fee under the agreement is based on the number of students enrolled in Arrow Academy schools and was approximately \$553,000 for the year ended August 31, 2019 and \$501,000 for the year ended August 31, 2018.

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
State ownership interest:		
Furniture and equipment	\$ 11,273	\$ 37,773
School operations	1,478,829	1,199,712
Federal ownership interest:		
Furniture and equipment	10,371	
Undesignated	<u>718,867</u>	<u>739,153</u>
Total net assets without donor restrictions	<u>\$ 2,208,969</u>	<u>\$ 1,987,009</u>

NOTE 7 – 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>2019</u>	<u>2018</u>
State grants:		
Texas Education Agency Foundation School Program	\$ 6,457,268	\$ 5,500,741
Instructional Materials	79,785	57,661
Other state revenue	<u>2,126</u>	<u>2,984</u>
Total state grants	<u>6,539,179</u>	<u>5,561,386</u>
Federal grants:		
U. S. Department of Education	597,634	526,336
U. S. Department of Agriculture	<u>468,908</u>	<u>399,144</u>
Total federal grants	<u>1,066,542</u>	<u>925,480</u>
Total government grants	<u>\$ 7,605,721</u>	<u>\$ 6,486,866</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 8 – LEASE COMMITMENTS

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

2020	\$ 704,452
2021	507,582
2022	219,290
2023	224,790
2024	<u>212,411</u>
Total	<u>\$ 1,868,525</u>

Rental expense was approximately \$672,000 and \$568,000 in 2019 and 2018, respectively.

NOTE 9 – 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 2019, plan members contribute 7.7% 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. Arrow Academy contributed the required contribution of \$141,265 and \$136,408 to the plan during fiscal years 2019 and 2018, respectively. There have been no significant changes that affect the comparability of 2019 and 2018 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.

Total TRS plan assets as of August 31, 2019 and 2018 were approximately \$181.8 billion and \$176.9 billion, respectively. Accumulated benefit obligations as of August 31, 2019 and 2018 were approximately \$209.9 billion and \$209.6 billion, respectively. The plan was approximately 75% funded at August 31, 2019 and 74% funded at August 31, 2018.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2020, 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash	\$ 1,630,867	\$ 1,270,669
Government grants and other receivables	456,811	477,700
Prepaid expenses	<u>51,408</u>	<u>105,375</u>
Total current assets	2,139,086	1,853,744
Furniture and equipment, net	<u>26,060</u>	<u>77,719</u>
TOTAL ASSETS	<u>\$ 2,165,146</u>	<u>\$ 1,931,463</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 193,682	\$ 225,743
Accrued payroll expenses	424,943	381,373
Accounts payable to affiliates	<u>32,328</u>	<u>33,958</u>
Total current liabilities	<u>650,953</u>	<u>641,074</u>
Net assets:		
Without donor restrictions	35,364	90,677
With donor restrictions – state and federal ownership interest	<u>1,478,829</u>	<u>1,199,712</u>
Total net assets	<u>1,514,193</u>	<u>1,290,389</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,165,146</u>	<u>\$ 1,931,463</u>

NOTE – The supplemental statements of financial position are 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 net assets with donor restrictions until expended pursuant to applicable statutes, regulations, and grant requirements.

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Financial Position as of August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash	<u>\$ 581,376</u>	<u>\$ 646,620</u>
Total current assets	<u>581,376</u>	<u>646,620</u>
Other assets	<u>113,400</u>	<u>50,000</u>
TOTAL ASSETS	<u>\$ 694,776</u>	<u>\$ 696,620</u>
NET ASSETS		
Net assets without donor restrictions	<u>\$ 694,776</u>	<u>\$ 696,620</u>
TOTAL NET ASSETS	<u>\$ 694,776</u>	<u>\$ 696,620</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2019 and 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2019	2018
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 77,571	\$ 796	\$ 78,367	\$ 99,028
5750 Co-curriculum/enterprising		271	271	641
Total local support	<u>77,571</u>	<u>1,067</u>	<u>78,638</u>	<u>99,669</u>
State program revenue:				
5810 Foundation School Program Act Revenue		6,457,268	6,457,268	5,500,741
5820 State program revenue distributed by Texas Education Agency		<u>81,911</u>	<u>81,911</u>	<u>60,645</u>
Total state program revenue	<u>6,539,179</u>	<u>6,539,179</u>	<u>5,561,386</u>	
Federal program revenue:				
5920 Federal revenue distributed by the State of Texas Education Agency		<u>1,066,542</u>	<u>1,066,542</u>	<u>925,480</u>
Total federal program revenue	<u>1,066,542</u>	<u>1,066,542</u>	<u>925,480</u>	
Net assets released from restrictions:				
Program expenditures	<u>7,327,671</u>	<u>(7,327,671)</u>		
Total revenue	<u>7,405,242</u>	<u>279,117</u>	<u>7,684,359</u>	<u>6,586,535</u>

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2019 and 2018

(continued)

		WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
				2019	2018
EXPENSES:					
11	Instruction	3,713,202		3,713,202	3,185,134
13	Curriculum development and instructional staff development	540,399		540,399	500,609
21	Instructional leadership	88,874		88,874	104,053
23	School leadership	660,107		660,107	576,132
31	Guidance counseling and evaluation services	80,972		80,972	37,692
33	Health services	3,968		3,968	2,901
34	Student transportation	115,743		115,743	71,442
35	Food services	512,253		512,253	461,098
41	General administration	579,910		579,910	497,763
51	Plant maintenance and operations	1,116,468		1,116,468	955,200
53	Data processing services	38,447		38,447	36,781
61	Community services	10,212		10,212	1,645
	Total expenses	<u>7,460,555</u>		<u>7,460,555</u>	<u>6,430,450</u>
CHANGES IN NET ASSETS					
		(55,313)	279,117	223,804	156,085
	Net assets, beginning of year	<u>90,677</u>	<u>1,199,712</u>	<u>1,290,389</u>	<u>1,134,304</u>
	Net assets, end of year	<u><u>\$ 35,364</u></u>	<u><u>\$ 1,478,829</u></u>	<u><u>\$ 1,514,193</u></u>	<u><u>\$ 1,290,389</u></u>

NOTE – The supplemental statements of activities by function are 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 net assets with donor restrictions 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, 2019 and 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2019	2018
REVENUE:				
Other revenue	\$ 11,391		\$ 11,391	\$ 1,210
Total revenue	<u>11,391</u>		<u>11,391</u>	<u>1,210</u>
EXPENSES:				
Grant to Arrow Academy	6,555		6,555	3,495
General administration	<u>6,680</u>		<u>6,680</u>	<u>1,173</u>
Total expenses	<u>13,235</u>		<u>13,235</u>	<u>4,668</u>
CHANGES IN NET ASSETS				
	(1,844)		(1,844)	(3,458)
Net assets, beginning of year	<u>696,620</u>		<u>696,620</u>	<u>700,078</u>
Net assets, end of year	<u>\$ 694,776</u>	<u>\$ 0</u>	<u>\$ 694,776</u>	<u>\$ 696,620</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Cash Flows for the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets without donor restrictions	\$ 223,804	\$ 156,085
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	51,659	109,584
Changes in operating assets and liabilities:		
Government grants and other receivables	20,889	54,185
Prepaid expenses	53,967	(21,041)
Accounts payable and accrued expenses	(32,061)	54,230
Accrued payroll expenses	43,570	45,117
Accounts payable to affiliates	<u>(1,630)</u>	<u>644</u>
Net cash provided by operating activities	<u>360,198</u>	<u>398,804</u>
NET CHANGE IN CASH	360,198	398,804
Cash, beginning of year	<u>1,270,669</u>	<u>871,865</u>
Cash, end of year	<u>\$ 1,630,867</u>	<u>\$ 1,270,669</u>

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Cash Flows for the years ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,844)	\$ (3,458)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Issuance of note receivable	(63,400)	
NET CHANGE IN CASH	(65,244)	(3,458)
Cash, beginning of year	646,620	650,078
Cash, end of year	\$ 581,376	\$ 646,620

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Expenses for the years ended August 31, 2019 and 2018

		<u>2019</u>	<u>2018</u>
6100	Payroll costs	\$ 4,537,753	\$ 4,026,089
6200	Professional and contracted services	2,242,135	1,900,143
6300	Supplies and materials	452,488	266,428
6400	Other operating costs	<u>228,179</u>	<u>237,790</u>
Total		<u>\$ 7,460,555</u>	<u>\$ 6,430,450</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Capital Assets as of August 31, 2019 and 2018

		2019			
		OWNERSHIP INTEREST			
		LOCAL	STATE	FEDERAL	TOTAL
1110	Cash		\$ 1,630,867		\$ 1,630,867
1549	Furniture and equipment	\$ 65,810	514,664	\$ 342,914	923,388
1570	Accumulated depreciation	<u>(51,023)</u>	<u>(503,391)</u>	<u>(342,914)</u>	<u>(897,328)</u>
Total		<u>\$ 14,787</u>	<u>\$ 1,642,140</u>	<u>\$ 0</u>	<u>\$ 1,656,927</u>

		2018			
		OWNERSHIP INTEREST			
		LOCAL	STATE	FEDERAL	TOTAL
1110	Cash		\$ 1,270,669		\$ 1,270,669
1549	Furniture and equipment	\$ 65,810	514,664	\$ 342,914	923,388
1570	Accumulated depreciation	<u>(36,235)</u>	<u>(476,891)</u>	<u>(332,543)</u>	<u>(845,669)</u>
Total		<u>\$ 29,575</u>	<u>\$ 1,308,442</u>	<u>\$ 10,371</u>	<u>\$ 1,348,388</u>

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2019

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	FROM FINAL <u>BUDGET</u>
REVENUE:				
Local support:				
5740 Other revenue from local sources	\$ 49,640	\$ 78,236	\$ 78,367	\$ 131
5750 Co-curriculum/enterprising	875	875	271	(604)
Total local support	<u>50,515</u>	<u>79,111</u>	<u>78,638</u>	<u>(473)</u>
State program revenue:				
5810 Foundation School Program Act Revenue	6,317,946	6,457,267	6,457,268	1
5820 State program revenue distributed by Texas Education Agency	99,573	39,950	81,911	41,961
Total state program revenue	<u>6,417,519</u>	<u>6,497,217</u>	<u>6,539,179</u>	<u>41,962</u>
Federal program revenue:				
5920 Federal revenue distributed by the State of Texas Education Agency	907,035	1,101,783	1,066,542	(35,241)
Total federal program revenue	<u>907,035</u>	<u>1,101,783</u>	<u>1,066,542</u>	<u>(35,241)</u>
Total revenue	<u>7,375,069</u>	<u>7,678,111</u>	<u>7,684,359</u>	<u>6,248</u>

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2019

(continued)

		BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FROM FINAL BUDGET
		ORIGINAL	FINAL		
EXPENSES:					
11	Instruction	3,586,240	3,714,101	3,713,202	(899)
13	Curriculum development and instructional staff development	527,682	586,569	540,399	(46,170)
21	Instructional leadership	99,694	92,294	88,874	(3,420)
23	School leadership	711,972	664,546	660,107	(4,439)
31	Guidance counseling and evaluation services	39,691	88,091	80,972	(7,119)
33	Health services	4,465	6,250	3,968	(2,282)
34	Student transportation	162,000	122,000	115,743	(6,257)
35	Food services	468,389	545,634	512,253	(33,381)
41	General administration	548,357	610,000	579,910	(30,090)
51	Plant maintenance and operations	1,086,230	1,145,672	1,116,468	(29,204)
53	Data processing services	42,106	41,993	38,447	(3,546)
61	Community services	2,000	12,453	10,212	(2,241)
71	Debt service	200	200		(200)
	Total expenses	<u>7,279,026</u>	<u>7,629,803</u>	<u>7,460,555</u>	<u>(169,248)</u>
CHANGES IN NET ASSETS					
		96,043	48,308	223,804	175,496
	Net assets, beginning of year	<u>1,290,389</u>	<u>1,290,389</u>	<u>1,290,389</u>	<u> </u>
	Net assets, end of year	<u>\$ 1,386,432</u>	<u>\$ 1,338,697</u>	<u>\$ 1,514,193</u>	<u>\$ 175,496</u>

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2019

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:

#1 School Breakfast Program – Child Nutrition Cluster 10/01/17 – 09/30/18	10.553	71401801	N/A	\$ 14,972	\$ 14,972
#2 School Breakfast Program – Child Nutrition Cluster 10/01/18 – 09/30/19	10.553	71401901	N/A	<u>110,399</u>	<u>110,399</u>
Subtotal – CFDA #10.553				<u>125,371</u>	<u>125,371</u>
#3 National School Lunch Program – Child Nutrition Cluster 10/01/17 – 09/30/18	10.555	71301801	N/A	37,263	37,263
#4 National School Lunch Program – Child Nutrition Cluster 10/01/18 – 09/30/19	10.555	71301901	N/A	280,307	280,307
Subtotal – CFDA #10.555				<u>343,537</u>	<u>343,537</u>
Total U. S. Department of Agriculture and Child Nutrition Cluster				<u>468,908</u>	<u>468,908</u>

U. S. DEPARTMENT OF EDUCATION

Passed through Texas Education Agency:

#6 Title I Grants to Local Educational Agencies 07/11/18 – 09/30/19	84.010	19-610101-021805	\$276,263	275,855	275,855
#7 Title I Grants to Local Educational Agencies, Priority and Focus School Grants 10/02/18 – 09/30/19	84.010	19-610112-021805	\$125,000	<u>115,393</u>	<u>115,393</u>
Subtotal – CFDA #84.010				<u>391,248</u>	<u>391,248</u>
#8 Special Education Grants to States 07/01/17 – 09/30/19	84.027	18-660001-021805	\$178,557	78,042	78,042
#9 Special Education Grants to States 08/07/18 – 09/30/19	84.027	19-660001-021805	\$105,485	<u>79,714</u>	<u>79,714</u>
Subtotal – CFDA #84.027 – Special Education Cluster				<u>157,756</u>	<u>157,756</u>

(continued)

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2019 *(continued)*

FEDERAL GRANTOR

<u>Pass-through Grantor</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Award Amount</u>	<u>Federal Revenue</u>	<u>Expenditures</u>
<u>Program Title & Period</u>					

U. S. DEPARTMENT OF EDUCATION *(continued)*

#10 Supporting Effective Instruction State Grants 07/11/18 – 09/30/19	84.367	19-694501-021805	\$30,002	<u>29,850</u>	<u>29,850</u>
#11 Student Support and Academic Enrichment Program 07/11/18 – 09/30/19	84.424	19-680101-021805	\$17,444	<u>17,444</u>	<u>17,444</u>
#12 Grants for State Assessments and Related Activities Title IV, Part A, Summer School LEP 07/01/18 – 09/30/19	84.369A	S369A180045	\$1,336	<u>1,336</u>	<u>1,336</u>
Total U. S. Department of Education				<u>597,634</u>	<u>597,634</u>
TOTAL FEDERAL AWARDS				<u>\$1,066,542</u>	<u>\$1,066,542</u>

See accompanying notes to schedule of expenditures of federal awards.

Leadership Education Foundation – Arrow Academy

Note to Schedule of Expenditures of Federal Awards for the year ended August 31, 2019

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 allowable costs funded by federal awards. Allowable costs are subject to the cost principles of the Uniform Guidance 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 minimis 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.

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, 2019 and the related statements of activities, of functional expenses, 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 22, 2020.

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 22, 2020

Independent Auditors' Report on Compliance for Each Major 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, 2019. 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, 2019.

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 a 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 22, 2020

Leadership Education Foundation – Arrow Academy

Schedule of Findings and Questioned Costs for the year ended August 31, 2019

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:

CFDA Number(s) Name of Program or Cluster

84.010 Title I Grants to Local Educational Agencies

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

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 2 CFR §200.516(a).