

**Leadership Education Foundation –
Arrow Academy**

Financial Statements
and Single Audit Reports
for the year ended August 31, 2021

Leadership Education Foundation – Arrow Academy

Table of Contents

| | Page |
|--|------|
| Independent Auditors' Report | 1 |
| Financial Statements: | |
| Statements of Financial Position as of August 31, 2021 and 2020 | 3 |
| Statement of Activities for the year ended August 31, 2021 | 4 |
| Statement of Activities for the year ended August 31, 2020 | 5 |
| Statements of Functional Expenses for the years ended August 31, 2021 and 2020 | 6 |
| Statements of Cash Flows for the years ended August 31, 2021 and 2020 | 7 |
| Notes to Financial Statements for the years ended August 31, 2021 and 2020 | 8 |
| Supplementary Information: | |
| Supplemental Statements of Financial Position as of August 31, 2021 and 2020 (Charter #021805) | 13 |
| Supplemental Statements of Activities by Function for the years ended August 31, 2021 and 2020 (Charter #021805) | 14 |
| Supplemental Statements of Cash Flows for the years ended August 31, 2021 and 2020 (Charter #021805) | 16 |
| Supplemental Statements of Financial Position as of August 31, 2021 and 2020 (The Charter Holder) | 17 |
| Supplemental Statements of Activities by Function for the years ended August 31, 2021 and 2020 (The Charter Holder) | 18 |
| Supplemental Statements of Cash Flows for the years ended August 31, 2021 and 2020 (The Charter Holder) | 19 |
| Schedules of Expenses for the years ended August 31, 2021 and 2020 | 20 |
| Schedules of Capital Assets as of August 31, 2021 and 2020 | 21 |
| Budgetary Comparison Schedule for the year ended August 31, 2021 | 22 |
| Explanation for Budget Variances for the year ended August 31, 2021 (unaudited) | 24 |
| Schedule of Real Property Ownership Interest for the year ended August 31, 2021 (unaudited) | 26 |
| Schedule of Related Party Transactions for the year ended August 31, 2021 | 27 |
| Schedule of Related Party Compensation and Benefits for the year ended June 30, 2021 | 28 |
| Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 | 29 |
| Note to Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 | 31 |
| 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 <i>Government Auditing Standards</i> | 32 |
| Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | 34 |
| Schedule of Findings and Questioned Costs for the year ended August 31, 2021 | 36 |

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, 2021 and 2020 and the related statements of activities, of functional expenses, 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, 2021 and 2020 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 13 through 23 and pages 27-28 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, 2021 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.

Unaudited Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The explanation for budget variances on page 24 and the schedule of real property ownership interest on page 26 are presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the basic financial statements. The explanation for budget variances has not been subjected to the audited procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2022 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.

Blazek & Vetterling

January 19, 2022

Leadership Education Foundation – Arrow Academy

Statements of Financial Position as of August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 2,532,497 | \$ 2,948,473 |
| Government grants and other receivables | 1,347,486 | 255,609 |
| Prepaid expenses and notes receivable | <u>91,789</u> | <u>88,409</u> |
| Total current assets | 3,971,772 | 3,292,491 |
| Notes receivable, net of allowance for doubtful accounts of \$48,500 at August 31, 2021 | | 93,210 |
| Furniture and equipment, net (<i>Note 3</i>) | <u>292</u> | <u>5,585</u> |
| TOTAL ASSETS | <u>\$ 3,972,064</u> | <u>\$ 3,391,286</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 103,289 | \$ 109,989 |
| Accrued payroll expenses | 357,439 | 342,205 |
| Grant payable (<i>Note 7</i>) | 42,025 | 275,951 |
| Refundable advance | | <u>130,231</u> |
| Total current liabilities | <u>502,753</u> | <u>858,376</u> |
| Commitments (<i>Note 8</i>) | | |
| Net assets: | | |
| Without donor restrictions (<i>Note 5</i>) | 269,678 | 443,546 |
| With donor restrictions – Texas School Foundation Program | <u>3,199,633</u> | <u>2,089,364</u> |
| Total net assets | <u>3,469,311</u> | <u>2,532,910</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,972,064</u> | <u>\$ 3,391,286</u> |

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statement of Activities for the year ended August 31, 2021

| | <u>WITHOUT DONOR RESTRICTIONS</u> | <u>WITH DONOR RESTRICTIONS</u> | <u>TOTAL</u> |
|--|---------------------------------------|------------------------------------|--------------|
| REVENUE: | | | |
| Government grants (<i>Note 6</i>) | | \$ 9,991,988 | \$ 9,991,988 |
| Other revenue | \$ 17,414 | 568 | 17,982 |
| Total revenue | 17,414 | 9,992,556 | 10,009,970 |
| Net assets released from restrictions: | | | |
| Program expenditures | 8,882,287 | (8,882,287) | |
| Total | 8,899,701 | 1,110,269 | 10,009,970 |
| EXPENSES: | | | |
| Program services | 8,157,615 | | 8,157,615 |
| Management and general | 915,954 | | 915,954 |
| Total expenses | 9,073,569 | | 9,073,569 |
| CHANGES IN NET ASSETS | (173,868) | 1,110,269 | 936,401 |
| Net assets, beginning of year | 443,546 | 2,089,364 | 2,532,910 |
| Net assets, end of year | \$ 269,678 | \$ 3,199,633 | \$ 3,469,311 |

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statement of Activities for the year ended August 31, 2020

| | <u>WITHOUT DONOR RESTRICTIONS</u> | <u>WITH DONOR RESTRICTIONS</u> | <u>TOTAL</u> |
|--|---------------------------------------|------------------------------------|---------------------|
| REVENUE: | | | |
| Government grants (<i>Note 6</i>) | | \$ 9,043,106 | \$ 9,043,106 |
| Other revenue | <u>\$ 107,120</u> | <u>1,147</u> | <u>108,267</u> |
| Total revenue | 107,120 | 9,044,253 | 9,151,373 |
| Net assets released from restrictions: | | | |
| Program expenditures | <u>8,433,718</u> | <u>(8,433,718)</u> | <u></u> |
| Total | <u>8,540,838</u> | <u>610,535</u> | <u>9,151,373</u> |
| EXPENSES: | | | |
| Program services | 8,033,048 | | 8,033,048 |
| Management and general | <u>794,384</u> | | <u>794,384</u> |
| Total expenses | <u>8,827,432</u> | | <u>8,827,432</u> |
| CHANGES IN NET ASSETS | (286,594) | 610,535 | 323,941 |
| Net assets, beginning of year | <u>730,140</u> | <u>1,478,829</u> | <u>2,208,969</u> |
| Net assets, end of year | <u>\$ 443,546</u> | <u>\$ 2,089,364</u> | <u>\$ 2,532,910</u> |

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statements of Functional Expenses for the years ended August 31, 2021 and 2020

| | PROGRAM <u>SERVICES</u> | MANAGEMENT <u>AND GENERAL</u> | 2021 <u>TOTAL EXPENSES</u> |
|--------------------------------|----------------------------|----------------------------------|-----------------------------------|
| Salaries and employee benefits | \$ 4,747,161 | \$ 217,697 | \$ 4,964,858 |
| Food services | 1,230,313 | | 1,230,313 |
| Contracted services | 519,784 | 329,160 | 848,944 |
| Rental expense | 735,854 | 9,568 | 745,422 |
| Supplies | 355,559 | 143,772 | 499,331 |
| Maintenance and repairs | 191,929 | | 191,929 |
| Utilities | 117,437 | | 117,437 |
| Grants | 113,100 | | 113,100 |
| Travel and training | 54,445 | 7,131 | 61,576 |
| Professional fees and dues | 1,219 | 60,109 | 61,328 |
| Bad debt expense | | 48,500 | 48,500 |
| Transportation | 40,935 | | 40,935 |
| Insurance | | 13,477 | 13,477 |
| Depreciation | 5,293 | | 5,293 |
| Other | <u>44,586</u> | <u>86,540</u> | <u>131,126</u> |
| Total expenses | <u>\$ 8,157,615</u> | <u>\$ 915,954</u> | <u>\$ 9,073,569</u> |

| | PROGRAM <u>SERVICES</u> | MANAGEMENT <u>AND GENERAL</u> | 2020 <u>TOTAL EXPENSES</u> |
|--------------------------------|----------------------------|----------------------------------|-----------------------------------|
| Salaries and employee benefits | \$ 4,755,050 | \$ 224,536 | \$ 4,979,586 |
| Food services | 726,393 | | 726,393 |
| Contracted services | 438,547 | 370,543 | 809,090 |
| Rental expense | 729,201 | 10,828 | 740,029 |
| Supplies | 562,381 | 38,082 | 600,463 |
| Maintenance and repairs | 167,611 | | 167,611 |
| Utilities | 130,171 | | 130,171 |
| Grants | 275,950 | | 275,950 |
| Travel and training | 68,251 | 2,704 | 70,955 |
| Professional fees and dues | 1,779 | 66,623 | 68,402 |
| Transportation | 96,399 | | 96,399 |
| Insurance | | 10,992 | 10,992 |
| Depreciation | 20,475 | | 20,475 |
| Other | <u>60,840</u> | <u>70,076</u> | <u>130,916</u> |
| Total expenses | <u>\$ 8,033,048</u> | <u>\$ 794,384</u> | <u>\$ 8,827,432</u> |

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Statements of Cash Flows for the years ended August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 936,401 | \$ 323,941 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 5,293 | 20,475 |
| Bad debt expense | 48,500 | |
| Changes in operating assets and liabilities: | | |
| Government grants and other receivables | (1,091,877) | 201,202 |
| Prepaid expenses and notes receivable | 16,310 | (37,001) |
| Accounts payable and accrued expenses | (6,700) | (116,021) |
| Accrued payroll expenses | 15,234 | (82,738) |
| Grant payable | (233,926) | 275,951 |
| Refundable advance | <u>(130,231)</u> | <u>130,231</u> |
| Net cash provided (used) by operating activities | <u>(440,996)</u> | <u>716,040</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from payments for notes receivable | <u>25,020</u> | <u>20,190</u> |
| NET CHANGE IN CASH | | |
| | (415,976) | 736,230 |
| Cash, beginning of year | <u>2,948,473</u> | <u>2,212,243</u> |
| Cash, end of year | <u>\$ 2,532,497</u> | <u>\$ 2,948,473</u> |

See accompanying notes to financial statements.

Leadership Education Foundation – Arrow Academy

Notes to Financial Statements for the years ended August 31, 2021 and 2020

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 2020-2021 school year located in Houston and Bryan, Texas, serving approximately 650 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. Leadership Education Foundation also provides consulting services that are outside of Arrow Academy's charter.

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.

Government grants and other receivables that are expected to be collected within one year are reported at net realizable value. All government grants are expected to be collected in fiscal year 2022 and thus no discount to estimate the present value of future cash flows is necessary. Management expects all amounts due to be collected in full and thus no allowance for uncollectible receivables is provided.

Notes receivable is reported at the principal balance outstanding. At August 31, 2021, the loans bear interest at 5% and mature in fiscal year 2022.

Allowance for uncollectible accounts – An allowance for notes receivable is provided when it is believed accounts may not be collected in full. The adequacy of the allowance at the end of each period are determined using an account-by-account analysis of note receivable balances each period.

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. 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, as follows:

- *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.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions restricted for acquisition of property and equipment are released when those assets are placed in service.

Government grants 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. Conditional contributions are subject to one or more barriers that must be overcome before Arrow Academy is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before the conditions have been met is reported as refundable advances.

Other revenue primarily represents after school program fees which are recognized as the services are provided.

Grants are recognized as expenses at fair value when Arrow Academy approves an unconditional commitment to a grant recipient. Conditional grants made are subject to one or more barriers that must be overcome before the recipient is entitled to receive or retain funding. Conditional grants are recognized in the same manner when the conditions are met by the recipient. Commitments made but not yet funded are reported as grants payable. Grants payable in more than one year are discounted, if material, to estimate the present value of their future cash flows using a risk-free rate-of-return. At August 31, 2021, the grant payable is due within one year.

Functional allocation of expenses – Expenses are reported by their functional classification. 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 more than one activity 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 pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (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 2023. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

NOTE 2 – 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 comprise the following:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Financial assets: | | |
| Cash | \$ 2,532,497 | \$ 2,948,473 |
| Government grants and other receivables | 1,347,486 | 255,609 |
| Notes receivable | <u>19,690</u> | <u>93,210</u> |
| Total financial assets | 3,899,673 | 3,297,292 |
| Less: | | |
| Board-designated assets held for teacher training | (110,950) | (224,050) |
| Notes receivable due in more than one year, net of allowance | <u>(71,730)</u> | <u>(71,730)</u> |
| Total financial assets available for general expenditure | <u>\$ 3,788,723</u> | <u>\$ 3,001,512</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 3 – FURNITURE AND EQUIPMENT

Furniture and equipment are comprised of the following:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|------------------|------------------|
| Furniture and equipment, at cost | \$ 923,388 | \$ 923,388 |
| Accumulated depreciation | <u>(923,096)</u> | <u>(917,803)</u> |
| Furniture and equipment, net | <u>\$ 292</u> | <u>\$ 5,585</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 4 – MANAGEMENT SERVICES AGREEMENT

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 2022. The management fee under the agreement is based on the number of students enrolled in Arrow Academy schools and was approximately \$546,000 for the year ended August 31, 2021 and \$614,000 for the year ended August 31, 2020.

NOTE 5 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| State ownership interest: | | |
| Furniture and equipment, net | \$ 292 | \$ 5,585 |
| Board-designated for teacher training | 110,950 | 224,050 |
| Undesignated | <u>158,436</u> | <u>213,911</u> |
| Total net assets without donor restrictions | <u>\$ 269,678</u> | <u>\$ 443,546</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>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| State grants: | | |
| Texas Education Agency Foundation School Program | \$ 7,689,982 | \$ 7,506,007 |
| Instructional materials | 18,094 | 85,695 |
| Blended Learning Professional Development | 11,000 | 52,000 |
| Other state revenue | <u>2,537</u> | <u>7,733</u> |
| Total state grants | <u>7,721,613</u> | <u>7,651,435</u> |
| Federal grants: | | |
| U. S. Department of Agriculture | 1,391,275 | 828,397 |
| U. S. Department of Education | <u>879,100</u> | <u>563,274</u> |
| Total federal grants | <u>2,270,375</u> | <u>1,391,671</u> |
| Total government grants | <u>\$ 9,991,988</u> | <u>\$ 9,043,106</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.

As of August 31, 2021, Arrow Academy has approximately \$178,000 of conditional contributions from various government agencies. The contributions will be recognized as revenue when the conditions, which include performance of allowable activities and incurring allowable expenses, are met. Arrow Academy is party to other government awards for which the award amount is not specified by the grantor. Arrow Academy will recognize these grants as qualifying grant expenditures are incurred and/or performance requirements are met.

NOTE 7 – CONDITIONAL GRANT

In 2020, Arrow Academy approved a conditional grant to a non-profit organization in the amount of up to \$500,000. The grant is to help sponsor teacher training for various schools. The grant is on a reimbursement basis and is conditioned on incurring allowable expense. At August 31, 2021, \$389,050 had been released and expended. The remaining balance of \$110,950 has not been recognized in the financial statements as the conditions have not been met.

NOTE 8 – LEASE COMMITMENTS

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

| | |
|-------|---------------------|
| 2022 | \$ 770,310 |
| 2023 | 820,520 |
| 2024 | 592,211 |
| 2025 | 379,800 |
| 2026 | <u>348,150</u> |
| Total | <u>\$ 2,910,991</u> |

Rental expense was approximately \$745,000 and \$740,000 in 2021 and 2020, 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 2021, plan members contribute 7.7% of their annual covered salary; Arrow Academy contributes 7.5% for new members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, Arrow Academy makes a 1.5% public education employer payment (formally known as 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 \$248,152 and \$249,053 to the plan during fiscal years 2021 and 2020, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 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, 2021 and 2020 were \$223.2 billion and \$184.4 billion, respectively. Accumulated benefit obligations as of August 31, 2021 and 2020 were \$227.3 billion and \$218.9 billion, respectively. The plan was 79.1% funded at August 31, 2021 and 76.8% funded at August 31, 2020.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 19, 2022, 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, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 2,252,617 | \$ 2,344,062 |
| Government grants and other receivables * | 1,350,205 | 258,543 |
| Prepaid expenses | <u>72,099</u> | <u>88,409</u> |
| Total current assets | 3,674,921 | 2,691,014 |
| Furniture and equipment, net | <u>292</u> | <u>5,585</u> |
| TOTAL ASSETS | <u>\$ 3,675,213</u> | <u>\$ 2,696,599</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 103,289 | \$ 109,989 |
| Accrued payroll expenses | 357,439 | 342,205 |
| Refundable advance | <u>130,231</u> | <u>130,231</u> |
| Total current liabilities | <u>460,728</u> | <u>582,425</u> |
| Net assets: | | |
| Without donor restrictions | 14,852 | 24,810 |
| With donor restrictions – Texas School Foundation Program | <u>3,199,633</u> | <u>2,089,364</u> |
| Total net assets | <u>3,214,485</u> | <u>2,114,174</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,675,213</u> | <u>\$ 2,696,599</u> |

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2021 and 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTALS | |
|--|-------------------------------|----------------------------|-------------------|------------------|
| | | | 2021 | 2020 |
| REVENUE: | | | | |
| Local support: | | | | |
| 5740 Other revenue from local sources * | \$ 19,619 | \$ 568 | \$ 20,187 | \$ 107,695 |
| 5750 Co-curriculum/enterprising | | | | 581 |
| Total local support | <u>19,619</u> | <u>568</u> | <u>20,187</u> | <u>108,276</u> |
| State program revenue: | | | | |
| 5810 Foundation School Program Act Revenue | | 7,689,982 | 7,689,982 | 7,506,007 |
| 5820 State program revenue distributed by Texas Education Agency | | <u>31,631</u> | <u>31,631</u> | <u>145,428</u> |
| Total state program revenue | <u>7,721,613</u> | <u>7,721,613</u> | <u>7,651,435</u> | |
| Federal program revenue: | | | | |
| 5920 Federal revenue distributed by the State of Texas Education Agency | | <u>2,270,375</u> | <u>2,270,375</u> | <u>1,391,671</u> |
| Total federal program revenue | <u>2,270,375</u> | <u>2,270,375</u> | <u>1,391,671</u> | |
| Net assets released from restrictions: | | | | |
| Program expenditures | <u>8,882,287</u> | <u>(8,882,287)</u> | | |
| Total revenue | <u>8,901,906</u> | <u>1,110,269</u> | <u>10,012,175</u> | <u>9,151,382</u> |

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Activities by Function for the years ended August 31, 2021 and 2020

(continued)

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTALS | |
|---|-------------------------------|----------------------------|----------------------------|----------------------------|
| | | | 2021 | 2020 |
| EXPENSES: | | | | |
| 11 Instruction | 4,069,051 | | 4,069,051 | 4,220,415 |
| 13 Curriculum development and instructional staff development | 613,399 | | 613,399 | 635,927 |
| 21 Instructional leadership | 163,380 | | 163,380 | 110,083 |
| 23 School leadership | 632,722 | | 632,722 | 640,702 |
| 31 Guidance counseling and evaluation services | 98,614 | | 98,614 | 76,004 |
| 33 Health services | 4,897 | | 4,897 | 5,786 |
| 34 Student transportation | 40,935 | | 40,935 | 96,399 |
| 35 Food services | 1,298,320 | | 1,298,320 | 808,667 |
| 41 General administration | 599,509 | | 599,509 | 634,950 |
| 51 Plant maintenance and operations | 1,223,745 | | 1,223,745 | 1,245,099 |
| 52 Security | 2,380 | | 2,380 | 7,730 |
| 53 Data processing services | 164,123 | | 164,123 | 63,367 |
| 61 Community services | 789 | | 789 | 6,272 |
| Total expenses | <u>8,911,864</u> | | <u>8,911,864</u> | <u>8,551,401</u> |
| CHANGES IN NET ASSETS | | | | |
| | (9,958) | 1,110,269 | 1,100,311 | 599,981 |
| Net assets, beginning of year | <u>24,810</u> | <u>2,089,364</u> | <u>2,114,174</u> | <u>1,514,193</u> |
| Net assets, end of year | <u><u>\$ 14,852</u></u> | <u><u>\$ 3,199,633</u></u> | <u><u>\$ 3,214,485</u></u> | <u><u>\$ 2,114,174</u></u> |

* Included in this amount is a grant from The Charter Holder for \$2,719 in fiscal year 2021 and \$2,934 in fiscal year 2020. The grant represents an intercompany grant from The Charter Holder to Charter #021805. This grant is eliminated on the financial statements of Leadership Education Foundation – Arrow Academy.

Leadership Education Foundation – Arrow Academy

Charter #021805

Supplemental Statements of Cash Flows for the years ended August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 1,100,311 | \$ 599,981 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 5,293 | 20,475 |
| Changes in operating assets and liabilities: | | |
| Government grants and other receivables | (1,091,662) | 198,268 |
| Prepaid expenses | 16,310 | (37,001) |
| Accounts payable and accrued expenses | (6,700) | (83,693) |
| Accrued payroll expenses | 15,234 | (82,738) |
| Refundable advance | (130,231) | 130,231 |
| Accounts payable to affiliates | <u>(32,328)</u> | <u>(32,328)</u> |
| Net cash provided (used) by operating activities | <u>(91,445)</u> | <u>713,195</u> |
| NET CHANGE IN CASH | | |
| Cash, beginning of year | <u>2,344,062</u> | <u>1,630,867</u> |
| Cash, end of year | <u>\$ 2,252,617</u> | <u>\$ 2,344,062</u> |

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Financial Position as of August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 279,880 | \$ 604,411 |
| Notes receivable | <u>19,690</u> | <u> </u> |
| Total current assets | 299,570 | 604,411 |
| Notes receivable, net of allowance for doubtful accounts | <u> </u> | <u>93,210</u> |
| TOTAL ASSETS | <u>\$ 299,570</u> | <u>\$ 697,621</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Grant payable ** | \$ 44,744 | \$ 278,885 |
| Total current liabilities | <u>44,744</u> | <u>278,885</u> |
| Net assets without donor restrictions | <u>254,826</u> | <u>418,736</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 299,570</u> | <u>\$ 697,621</u> |

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Activities by Function for the years ended August 31, 2021 and 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTALS | |
|-------------------------------|-------------------------------|----------------------------|-------------------|-------------------|
| | | | 2021 | 2020 |
| REVENUE: | | | | |
| Other revenue | \$ 514 | | \$ 514 | \$ 2,925 |
| Total revenue | <u>514</u> | | <u>514</u> | <u>2,925</u> |
| EXPENSES: | | | | |
| Grant | 113,100 | | 113,100 | 275,950 |
| Grant to Arrow Academy ** | 2,719 | | 2,719 | 2,934 |
| Bad debt expense | 48,500 | | 48,500 | |
| General administration | <u>105</u> | | <u>105</u> | <u>81</u> |
| Total expenses | <u>164,424</u> | | <u>164,424</u> | <u>278,965</u> |
| CHANGES IN NET ASSETS | (163,910) | | (163,910) | (276,040) |
| Net assets, beginning of year | <u>418,736</u> | | <u>418,736</u> | <u>694,776</u> |
| Net assets, end of year | <u>\$ 254,826</u> | <u>\$ 0</u> | <u>\$ 254,826</u> | <u>\$ 418,736</u> |

** The grant of \$2,719 in fiscal year 2021 and \$2,934 in fiscal year 2020 represents an intercompany grant from The Charter Holder to Charter #021805. This grant is eliminated on the financial statements of Leadership Education Foundation – Arrow Academy.

Leadership Education Foundation – Arrow Academy

Leadership Education Foundation (The Charter Holder)

Supplemental Statements of Cash Flows for the years ended August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ (163,910) | \$ (276,040) |
| Bad debt expense | 48,500 | |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Changes in operating assets and liabilities: | | |
| Grant payable | <u>(234,141)</u> | <u>278,885</u> |
| Net cash provided (used) by operating activities | <u>(349,551)</u> | <u>2,845</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from collections of notes receivable | <u>25,020</u> | <u>20,190</u> |
| NET CHANGE IN CASH | (324,531) | 23,035 |
| Cash, beginning of year | <u>604,411</u> | <u>581,376</u> |
| Cash, end of year | <u>\$ 279,880</u> | <u>\$ 604,411</u> |

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Expenses for the years ended August 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| 6100 Payroll costs | \$ 4,964,858 | \$ 4,979,586 |
| 6200 Professional and contracted services | 3,196,648 | 2,691,791 |
| 6300 Supplies and materials | 526,401 | 633,267 |
| 6400 Other operating costs | <u>223,957</u> | <u>246,757</u> |
| Total | <u>\$ 8,911,864</u> | <u>\$ 8,551,401</u> |

Leadership Education Foundation – Arrow Academy

Charter #021805

Schedules of Capital Assets as of August 31, 2021 and 2020

| | | 2021 | | |
|-------|--------------------------|--------------------|---------------------|---------------------|
| | | OWNERSHIP INTEREST | | |
| | | LOCAL | STATE | FEDERAL |
| 1110 | Cash | | \$ 2,252,617 | \$ 2,252,617 |
| 1549 | Furniture and equipment | \$ 65,810 | 514,664 | \$ 342,914 |
| 1570 | Accumulated depreciation | <u>(65,810)</u> | <u>(514,372)</u> | <u>(342,914)</u> |
| Total | | <u>\$ 0</u> | <u>\$ 2,252,909</u> | <u>\$ 0</u> |
| | | | | <u>\$ 2,252,909</u> |

| | | 2020 | | |
|-------|--------------------------|--------------------|---------------------|---------------------|
| | | OWNERSHIP INTEREST | | |
| | | LOCAL | STATE | FEDERAL |
| 1110 | Cash | | \$ 2,344,062 | \$ 2,344,062 |
| 1549 | Furniture and equipment | \$ 65,810 | 514,664 | \$ 342,914 |
| 1570 | Accumulated depreciation | <u>(65,810)</u> | <u>(509,079)</u> | <u>(342,914)</u> |
| Total | | <u>\$ 0</u> | <u>\$ 2,349,647</u> | <u>\$ 0</u> |
| | | | | <u>\$ 2,349,647</u> |

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2021

| | BUDGETED AMOUNTS | | VARIANCE FROM ORIGINAL BUDGET | ACTUAL AMOUNTS | VARIANCE FROM FINAL BUDGET | | | |
|--|------------------|------------------|-------------------------------------|-------------------|----------------------------------|--|--|--|
| | ORIGINAL | FINAL | | | | | | |
| REVENUE: | | | | | | | | |
| Local support: | | | | | | | | |
| 5740 Other revenue from local sources | \$ 68,814 | \$ 91,874 | \$ 23,060 (A) | \$ 20,187 | \$ (71,687) | | | |
| 5750 Co-curriculum/enterprising | <u>582</u> | <u>582</u> | | | <u>(582)</u> | | | |
| Total local support | <u>69,396</u> | <u>92,456</u> | <u>23,060</u> | <u>20,187</u> | <u>(72,269)</u> | | | |
| State program revenue: | | | | | | | | |
| 5810 Foundation School Program Act Revenue | 6,932,061 | 7,248,908 | 316,847 | 7,689,982 | 441,074 | | | |
| 5820 State program revenue distributed by Texas Education Agency | <u>62,241</u> | <u>27,537</u> | <u>(34,704) (B)</u> | <u>31,631</u> | <u>4,094</u> | | | |
| Total state program revenue | <u>6,994,302</u> | <u>7,276,445</u> | <u>282,143</u> | <u>7,721,613</u> | <u>445,168</u> | | | |
| Federal program revenue: | | | | | | | | |
| 5920 Federal revenue distributed by the State of Texas Education Agency | <u>1,448,769</u> | <u>2,382,808</u> | <u>934,039 (C)</u> | <u>2,270,375</u> | <u>(112,433)</u> | | | |
| Total federal program revenue | <u>1,448,769</u> | <u>2,382,808</u> | <u>934,039</u> | <u>2,270,375</u> | <u>(112,433)</u> | | | |
| Total revenue | <u>8,512,467</u> | <u>9,751,709</u> | <u>1,239,242</u> | <u>10,012,175</u> | <u>260,466</u> | | | |

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Budgetary Comparison Schedule for the year ended August 31, 2021

(continued)

| | | BUDGETED AMOUNTS | | VARIANCE FROM ORIGINAL BUDGET | ACTUAL AMOUNTS | VARIANCE FROM FINAL BUDGET |
|------------------------------|--|------------------|--------------|-------------------------------------|-------------------|----------------------------------|
| | | ORIGINAL | FINAL | | | |
| EXPENSES: | | | | | | |
| 11 | Instruction | 4,061,901 | 4,364,633 | 302,732 | 4,069,051 | (295,582) |
| 13 | Curriculum development and instructional staff development | 889,422 | 684,157 | (205,265)(D) | 613,399 | (70,758) |
| 21 | Instructional leadership | 157,157 | 163,805 | 6,648 | 163,380 | (425) |
| 23 | School leadership | 640,221 | 652,618 | 12,397 | 632,722 | (19,896) |
| 31 | Guidance counseling and evaluation services | 81,136 | 99,662 | 18,526 (E) | 98,614 | (1,048) |
| 33 | Health services | 6,960 | 6,960 | | 4,897 | (2,063) |
| 34 | Student transportation | 42,750 | 42,750 | | 40,935 | (1,815) |
| 35 | Food services | 524,098 | 1,335,946 | 811,848 (F) | 1,298,320 | (37,626) |
| 41 | General administration | 597,737 | 665,995 | 68,258 (G) | 599,509 | (66,486) |
| 51 | Plant maintenance and operations | 1,269,058 | 1,263,517 | (5,541) | 1,223,745 | (39,772) |
| 52 | Security | 5,989 | 15,000 | 9,011 (H) | 2,380 | (12,620) |
| 53 | Data processing services | 65,116 | 167,160 | 102,044 (I) | 164,123 | (3,037) |
| 61 | Community services | 1,300 | 1,600 | 300 (J) | 789 | (811) |
| 71 | Debt service | 200 | 200 | | | (200) |
| | Total expenses | 8,343,045 | 9,464,003 | 1,120,958 | 8,911,864 | (552,139) |
| CHANGES IN NET ASSETS | | | | | | |
| | | 169,422 | 287,706 | 118,284 | 1,100,311 | 812,605 |
| | Net assets, beginning of year | 2,114,174 | 2,114,174 | | 2,114,174 | |
| | Net assets, end of year | \$ 2,283,596 | \$ 2,401,880 | \$ 118,284 | \$ 3,214,485 | \$ 812,605 |

Leadership Education Foundation – Arrow Academy

Charter #021805

Explanation for Budget Variances for the year ended August 31, 2021 (unaudited)

Material Budget Variances

The following is an explanation of the 10% variances from original budget to final budget reported on the Budgetary Comparison Schedule.

(A) 5740 Other revenue from local sources – 34% variance, \$23,060

The primary reason for the change in this budget line item is the final budget included funds related to an insurance recovery claim in the amount of \$52,300. This claim was not originally budgeted as the amount was unknown. Additionally, the original budget included funds related to a potential after-school program that was discontinued and was therefore removed from the final budget.

(B) 5820 State program revenue distributed by TEA – (56%) variance, (\$34,704)

The original budget included the full amount available to the school under the instructional materials allotment or \$59,925 in anticipation of textbook purchases in the summer of 2021. It was determined during the year that the textbooks would continue for another cycle and the expected fund expenditure was reduced to \$12,000 or a reduction of \$47,250. This was partially offset by \$13,000 received as reimbursement for UTeach Blended Learning Professional Development that was receivable only after staff completed the course. The timing of completion by staff was not known in the original budget.

(C) 5920 Federal revenue distributed by the State of Texas Education Agency – 64% variance, \$934,039

The school did not include in the original budget funds allocated by the Department of Agriculture to feed non-student community members due to a lack of ability to forecast the availability of funds and how the community would receive the program. Because Arrow Academy exists in certain high poverty neighborhoods, the community outreach program far exceeded any normal meal program related to students only. The school served approximately \$870,000 in meals to the community (non-students) under the Covid plan. Absent the non-student meals, the variance from the original budget would have been approximately 4%.

(D) Function 13 – Curriculum and instruction – (23%) variance, (\$205,265)

The original budget included funds related to the cost of state required literacy training for all early elementary grade classroom educators (Reading Academies). The original budget was based on an anticipated cost provided by the state. The actual cost ended up being far less per person than was originally projected. The state guidance provided for the cost per staff member was originally \$4,000 to \$5,000 and the actual was \$400 per staff member. The budget was reduced to reflect this change in cost. The original budget included \$290,000 for literacy training. Due to Covid, the state extended the timeline for completing literacy training and the majority of our staff went the following year. With the reduction in actual cost compared to the state's original cost projection combined with fewer staff attending training in 2020-2021 than originally budgeted, the budget was reduced \$225,000 related to Reading Academies.

(continued)

Leadership Education Foundation – Arrow Academy

Charter #021805

Explanation for Budget Variances for the year ended August 31, 2021 (unaudited)

(continued)

(E) Function 31 – Guidance counseling and evaluation services – 23% variance, \$18,526

The variance in budget relates to evaluation services related to special education students. There was a much higher percentage of students that required evaluation than historical averages would have indicated. An additional \$16,000 was required to accommodate the additional evaluation services. Absent this need, the budget variance would have been 3%.

(F) Function 35 – Food services – 155% variance, \$811,848

The school did not include in the original budget funds allocated by the Department of Agriculture to feed non-student community members as it was not known if the Covid program would continue at the time of the original budget. Because Arrow Academy exists in certain high poverty neighborhoods, the community outreach program far exceeded any normal meal program related to students only. The school served approximately \$870,000 in meals to the community (non-students) under the Covid plan. Additionally, the original budget was determined on a cost per student based on an estimated enrollment. The actual enrollment was less than estimated due to Covid and the final budget was based on known enrollment rather than an estimate.

(G) Function 41 – General administration – 11% variance, \$68,258

A larger community and public relations program was proposed and initiated during the year in response to Covid student losses. This program was not initially considered in the original budget. The total additional spend for this program was approximately \$50,000. Absent this change, the variance would have been 3%.

(H) Function 52 – Security and monitoring services – 150% variance, \$9,011

The total change to this budget was \$9,011. It was planned during the year (after the original budget) to add access controls and cameras in August 2021 for additional security at a cost of \$3,000 per campus. The visitor screening software was less than budgeted so the original budget was only increased \$9,000 and not the full \$12,000 needed for the access controls and cameras.

(I) Function 53 – Data processing services – 157% variance, \$102,044

A study was done during the 2020-2021 fiscal year regarding obtaining a new accounting and student services software system. It was determined mid-year that the school would change software systems effective for the 2021-2022 school year and the initial planning and programming would occur in the summer of 2021. The 2020-2021 budget was amended to allow for these implementation costs to occur in the summer of 2021.

(J) Function 61 – Community services – 23% variance, \$300

The change to this budget was \$300. The increase relates to a request for additional funds to do a larger parent outreach at a single campus.

Leadership Education Foundation – Arrow Academy

Schedule of Real Property Ownership Interest for the year ended August 31, 2021 (unaudited)

| <u>DESCRIPTION</u> | <u>PROPERTY ADDRESS</u> | <u>TOTAL ASSESSED VALUE</u> | <u>OWNERSHIP INTEREST</u> | | |
|--------------------|-------------------------|-------------------------------------|---------------------------|--------------|----------------|
| | | | <u>LOCAL</u> | <u>STATE</u> | <u>FEDERAL</u> |

None

Leadership Education Foundation – Arrow Academy

Schedule of Related Party Transactions for the year ended August 31, 2021

| <u>RELATED PARTY NAME</u> | NAME OF RELATION TO THE <u>RELATED PARTY</u> | <u>RELATIONSHIP</u> | <u>TYPE OF TRANSACTION</u> | DESCRIPTION OF TERMS AND <u>CONDITIONS</u> | SOURCE OF <u>FUNDS USED</u> | PAYMENT <u>FREQUENCY</u> | <u>TOTAL PAID DURING FISCAL YEAR</u> | <u>PRINCIPAL BALANCE DUE</u> |
|---------------------------|--|---------------------|--------------------------------|--|--------------------------------|-----------------------------|--|----------------------------------|
|---------------------------|--|---------------------|--------------------------------|--|--------------------------------|-----------------------------|--|----------------------------------|

None

Leadership Education Foundation – Arrow Academy

Schedule of Related Party Compensation and Benefits for the year ended June 30, 2021

| <u>RELATED PARTY NAME</u> | NAME OF RELATION TO THE <u>RELATED PARTY</u> | RELATIONSHIP | COMPENSATION OR BENEFIT | PAYMENT FREQUENCY | DESCRIPTION | SOURCE OF FUND'S USED | TOTAL PAID DURING <u>FISCAL YEAR</u> |
|---------------------------|--|--------------|----------------------------|----------------------|-------------|--------------------------|--|
|---------------------------|--|--------------|----------------------------|----------------------|-------------|--------------------------|--|

None

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021

| <u>FEDERAL GRANTOR</u> | <u>Assistance Listing Number</u> | <u>Grant Number</u> | <u>Federal Expenditures</u> |
|-----------------------------------|----------------------------------|---------------------|-----------------------------|
| <u>Pass-through Grantor</u> | | | |
| <u>Program Title & Period</u> | | | |

U. S. DEPARTMENT OF AGRICULTURE

Passed through Texas Education Agency:

| | | | | |
|----|--|--------|----------|----------------|
| #1 | School Breakfast Program – Child Nutrition Cluster 10/01/19 – 09/30/20 | 10.553 | 71402001 | \$ 16,177 |
| #2 | School Breakfast Program – Child Nutrition Cluster 10/01/20 – 09/30/21 | 10.553 | 71402101 | <u>435,459</u> |
| | Subtotal – CFDA #10.553 | | | <u>451,636</u> |
| #3 | National School Lunch Program – Child Nutrition Cluster 10/01/19 – 09/30/20 | 10.555 | 71302001 | 28,080 |
| #4 | National School Lunch Program – Child Nutrition Cluster 10/01/20 – 09/30/21 | 10.555 | 71302101 | 781,625 |

Passed through The Healthy Lunchbox:

| | | | | |
|----|---|--------|-----|------------------|
| #5 | National School Lunch Program – Food Commodities – Child Nutrition Cluster 07/01/20 – 06/30/21 | 10.555 | N/A | <u>36,411</u> |
| | Subtotal – CFDA #10.555 | | | <u>846,116</u> |
| | Total U. S. Department of Agriculture and Child Nutrition Cluster | | | <u>1,297,752</u> |

U. S. DEPARTMENT OF EDUCATION

Passed through Texas Education Agency:

| | | | | |
|----|---|--------|------------------|----------------|
| #6 | Title I, Grants to Local Educational Agencies, Improving Basic Programs 07/16/19 – 09/30/21 | 84.010 | 20-610101-021805 | 6,832 |
| #7 | Title I, Grants to Local Educational Agencies, Improving Basic Programs 08/11/20 – 09/30/21 | 84.010 | 21-610101-021805 | 269,363 |
| #8 | Title I, Grants to Local Educational Agencies, Priority and Focus School Grants 09/26/19 – 09/30/20 | 84.010 | 20-610141-021805 | 2,600 |
| #9 | Title I, Grants to Local Educational Agencies, Priority and Focus School Grants 10/02/20 – 09/30/21 | 84.010 | 21-610141-021805 | <u>155,190</u> |
| | Subtotal – CFDA #84.010 | | | <u>433,985</u> |

(continued)

Leadership Education Foundation – Arrow Academy

Schedule of Expenditures of Federal Awards for the year ended August 31, 2021 *(continued)*

| <u>FEDERAL GRANTOR</u> | <u>Assistance Listing Number</u> | <u>Grant Number</u> | <u>Federal Expenditures</u> |
|--|----------------------------------|-----------------------|-----------------------------|
| <u>Pass-through Grantor</u> | | | |
| <u>Program Title & Period</u> | | | |
| U. S. DEPARTMENT OF EDUCATION <i>(continued)</i> | | | |
| Passed through Texas Education Agency: <i>(continued)</i> | | | |
| #10 Special Education Grants to States – Special Education Cluster (IDEA) IDEA-B Formula 07/18/19 – 09/30/20 | 84.027 | 20-660001-021805-6600 | 12,642 |
| #11 Special Education Grants to States – Special Education Cluster (IDEA) IDEA-B Formula 08/13/20 – 09/30/21 | 84.027 | 21-660001-021805-6600 | <u>130,265</u> |
| Subtotal – CFDA #84.027 – Special Education Cluster (IDEA) | | | <u>142,907</u> |
| #12 Supporting Effective Instruction State Grants, Title II, Part A, Teacher and Principal Training and Recruiting 07/16/19 – 09/30/22 | 84.367 | 20-694501-021805 | 8,602 |
| #13 Supporting Effective Instruction State Grants, Title II, Part A, Teacher and Principal Training and Recruiting 08/11/20 – 09/30/21 | 84.367 | 21-694501-021805 | <u>13,934</u> |
| Subtotal – CFDA #84.367 | | | <u>22,536</u> |
| #14 Student Support and Academic Enrichment Program, Title IV, Part A, Subpart 1 08/11/20 – 09/30/21 | 84.424 | 21-680101-021805 | <u>20,927</u> |
| Subtotal – CFDA #84.424 | | | <u>20,927</u> |
| #15 COVID-19 Education Stabilization Fund, ESSER Grant 08/20/20 – 09/30/21 | 84.425D | 20-521001-021805 | 190,968 |
| #16 COVID-19 Education Stabilization Fund CARES Act, Section 5001, Coronavirus Relief Fund, Operation Connectivity Prior Purchase Reimbursement Program 05/21/20 – 01/31/21 | 84.425D | 52102035 | <u>56,762</u> |
| Subtotal – CFDA #84.425D | | | <u>247,730</u> |
| Passed through Region VI Educational Service Center: | | | |
| #17 English Language Acquisition State Grants Title III, Part A – ELA SSA | 84.365A | 21-671001-236950 | <u>11,015</u> |
| Subtotal – CFDA #84.365A | | | <u>11,015</u> |
| Total U. S. Department of Education | | | <u>879,100</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$2,176,852</u> |

See accompanying note 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, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards (the schedule) 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 minimus rate for indirect costs and does not have any subrecipients.

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, 2021 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 19, 2022.

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) as a basis for designing 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 financial statements. 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 Arrow Academy'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 19, 2022

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, 2021. 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 awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Arrow Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, 2021.

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.

January 19, 2022

Leadership Education Foundation – Arrow Academy

Schedule of Findings and Questioned Costs for the year ended August 31, 2021

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>Assistance Listing Number(s)</u> | <u>Name of Program or Cluster</u> |
|-------------------------------------|---------------------------------------|
| 10.553, 10.555 | Child Nutrition Cluster |
| 84.425D | COVID-19 Education Stabilization Fund |

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).