



Leadership Prep School

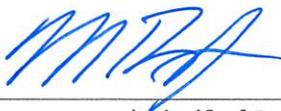
**Financial Statements with Compliance Report and
Supplemental Information
June 30, 2022**

Leadership Prep School
Federal Employer Identification No. 27-1616131
County District No. 061-804
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Leadership Prep School was reviewed and (check one) approved ___ disapproved for the year ended June 30, 2022, at a meeting of the governing body of the charter holder on the 11th day of November, 2022.



Signature of Board Secretary
Scott Armendariz



Signature on behalf of Board President
Mark Renfro, Board Treasurer

Leadership Prep School

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Independent Auditors' Report

To the Board of Directors of
Leadership Prep School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Leadership Prep School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements are presented fairly, in all material respects, the financial position of Leadership Prep School as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Leadership Prep School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Leadership Prep School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with accounting standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Leadership Prep School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Leadership Prep School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the accompanying table of contents 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 supplemental 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2022 on our consideration of Leadership Prep School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Leadership Prep School'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 Leadership Prep School's internal control over financial reporting and compliance.



A Limited Liability Partnership

Arlington, Texas
November 11, 2022

Leadership Prep School
Statement of Financial Position
June 30, 2022

Assets

Current assets:

Cash and cash equivalents	\$ 7,436,665
Due from Texas Education Agency	2,079,305
Prepaid expense	<u>175,141</u>

Total current assets 9,691,111

Property and equipment, net 14,718,174

Total assets \$ 24,409,285

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 69,675
Accrued compensation	856,354
Accrued liabilities	32,074
Deferred revenue	155,333
Current maturities of long-term debt	430,000
Current maturities of capital lease obligation	<u>10,716</u>

Total current liabilities 1,554,152

Noncurrent liabilities:

Long-term debt, net	16,068,751
Capital lease obligation, less current maturities	<u>15,311</u>

Total noncurrent liabilities 16,084,062

Total liabilities 17,638,214

Net assets:

Without donor restrictions	340,876
With donor restrictions	<u>6,430,195</u>

Total net assets 6,771,071

Total liabilities and net assets \$ 24,409,285

Leadership Prep School
Statement of Activities
Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Local support:			
5742 Earnings from temporary deposits and investments	\$ -	\$ 377	\$ 377
5744 Foundations, other nonprofit organizations, gifts and bequests	27,382	1,500	28,882
5748 Other revenue from local sources - locally defined	49,154	215	49,369
5749 Other revenues from local sources	257,529	10,907	268,436
5750 Revenues from cocurricular activities	46,733	-	46,733
Total local support	380,798	12,999	393,797
State program revenues:			
5811 Per Capita Apportionment	-	674,729	674,729
5812 Foundation School Program Act Entitlements	-	11,028,187	11,028,187
5829 State Program Revenues Distributed by TEA	-	47,973	47,973
Total state program revenue	-	11,750,889	11,750,889
Federal program revenues:			
5929 IDEA, Part B, Formula	-	326,392	326,392
Total federal program revenue	-	326,392	326,392
Net assets released from restrictions- Restrictions satisfied by payments	11,580,047	(11,580,047)	-
Total revenue and support	11,960,845	510,233	12,471,078

See notes to financial statements.

Leadership Prep School
Statement of Activities
Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Expenses:			
11 Instruction	\$ 5,961,677	\$ -	\$ 5,961,677
12 Instructional resources and media services	137	-	137
13 Curriculum development and instructional staff development	513,605	-	513,605
21 Instructional leadership	90,116	-	90,116
23 School leadership	522,226	-	522,226
31 Guidance, counseling and evaluation services	509,047	-	509,047
32 Social work services	19,658	-	19,658
33 Health services	105,371	-	105,371
35 Food services	35,692	-	35,692
36 Extracurricular activities	159,864	-	159,864
41 General administration	648,535	-	648,535
51 Facilities maintenance and operations	2,034,411	-	2,034,411
52 Security	57,304	-	57,304
53 Data processing services	170,831	-	170,831
61 Community services	65,206	-	65,206
71 Debt service	1,025,325	-	1,025,325
81 Fundraising	16,247	-	16,247
Total expenses	<u>11,935,252</u>	<u>-</u>	<u>11,935,252</u>
Increase in net assets	25,593	510,233	535,826
Net assets at beginning of year	<u>315,283</u>	<u>5,919,962</u>	<u>6,235,245</u>
Net assets at end of year	<u>\$ 340,876</u>	<u>\$ 6,430,195</u>	<u>\$ 6,771,071</u>

See notes to financial statements.

Leadership Prep School
Statement of Cash Flows
Year Ended June 30, 2022

Cash flows from operating activities:

Increase in net assets	\$ 535,826
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	673,557
Amortization of debt issuance costs	314,524
Changes in assets and liabilities:	
Due from Texas Education Agency	(343,846)
Accounts receivable	17,096
Prepaid expense	28,429
Accounts payable	(55,868)
Accrued compensation	(18,163)
Accrued liabilities	(10,936)
Deferred revenue	25,733
	1,166,352
Net cash provided by operating activities	1,166,352

Cash flows from investing activities:

Purchases of property and equipment	(95,609)
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Cash flows from financing activities:

Principal payments of capital lease	(10,101)
Payment of debt issuance costs	(108,856)
Proceeds from issuance of bonds	227,258
Principal payments of long-term debt	(1,857,258)
	(1,748,957)
Net cash used by financing activities	(1,748,957)

Net decrease in cash and cash equivalents	(678,214)
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Cash and cash equivalents at beginning of year	<u>8,114,879</u>
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Cash and cash equivalents at end of year	<u><u>\$ 7,436,665</u></u>
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Supplemental disclosure of cash flow information:

Cash paid during the year for interest	<u><u>\$ 702,353</u></u>
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Noncash financing activities:

Refinancing of long-term debt	<u><u>\$ 16,482,742</u></u>
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See notes to financial statements.

Leadership Prep School

Notes to Financial Statements

1. Organization and Nature of Activities

Leadership Prep School (School) operates under an open enrollment charter granted by the State of Texas Board of Education. The School operates two charter school campuses for students from kindergarten through twelfth grade, and does not conduct any non-charter activities. The original charter was issued for a period from January 20, 2011 to July 31, 2016. The charter was renewed on July 5, 2016 and now expires July 31, 2026. The charter is subject to review and renewal prior to expiration.

The mission of Leadership Prep School is to inspire all students to embrace a lifelong love of learning which will enable them to become leaders in the global market through challenging, engaging and diverse learning experiences in partnership with parents and communities. Leadership Prep School has a special focus on leadership development with a high level of academic instruction.

The School is part of the public school system of the State of Texas (State) and is therefore entitled to distribution from the State's available school fund. The School does not have the authority to impose ad valorem taxes or to charge tuition.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The School prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide.

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor or grantor-imposed restrictions even though their use may be limited in other respects, such as by contract or board designation.

Net assets with donor restrictions - Net assets subject to donor or grantor stipulations that will be met by actions of the School and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Leadership Prep School

Notes to Financial Statements

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist of cash, cash equivalents and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. The School maintains cash balances at a financial institution located in Texas. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2022, the School's bank balances were fully insured or covered by pledged collateral in the School's name. Accounts receivable are unsecured and are primarily due from the Texas Education Agency (TEA). The School continually evaluates the collectability of accounts receivable and maintains allowances as necessary. No provision has been made for uncollectible accounts receivable as of the statement of financial position date, given that none have been identified.

For the year ended June 30, 2022, the School received 96.8% of its total revenue and support from the TEA and the federal government. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the School to continue to provide the current level of services to its students.

Cash and Cash Equivalents

The School considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment purchased by the School are recorded at cost, or if donated, at fair value on the date received. Property and equipment is defined by the School as assets with an individual cost of more than \$5,000 and a useful life of more than 1 year. Interest expense on debt issued for construction projects is capitalized until the project is placed in service. Depreciation is provided on the straight-line method based upon the estimated useful lives of 3 to 30 years. Expenditures for maintenance and repairs are expensed when incurred; significant renewals and betterments are capitalized. Property and equipment acquired with public funds received for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code.

For depreciable property and equipment, or resources to be used to acquire depreciable property and equipment, the donor or grantor restriction expires over the assets' useful life, as required by the TEA.

The School reviews the carrying value of long-lived assets to determine if facts and circumstances suggest that they may be impaired. The School did not recognize an impairment loss during the year ended June 30, 2022.

Leadership Prep School

Notes to Financial Statements

Debt Issuance Costs

Costs of obtaining bond financing are recorded as debt issuance costs and are reported as a direct reduction of the related debt and amortized as interest expense using the interest method over the term of the bonds. Amortization expense is included in debt service in the accompanying statement of activities.

Grants and Contributions

The School considers all government grants and contracts to be contributions. The School recognizes grants and contributions at fair value when an unconditional commitment is received from the donor or grantor agency. Contributions and grants received with donor or grantor stipulations that limit their use are classified as with donor restrictions. Conditional grants and contributions are subject to one or more barriers that must be overcome before the School is entitled to receive or retain funding and are included in revenue when the conditions are substantially met. Funding received before conditions are met is reported as deferred revenue.

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

As of June 30, 2022, the School has \$882,520 of conditional grants from governmental agencies. The grants will be recognized as revenue when all the conditions, which include performance of allowable activities and incurring allowable expense, are met.

Revenue Recognition

Revenue from contracts with customers is derived primarily from food service fees and other miscellaneous fees. Revenue is recognized when the services are provided to a student, in an amount that reflects the consideration. The School expects to be entitled to an exchange for those services. The nature of these services does not give rise to contract costs or any variable considerations, or other related obligations.

Federal Income Taxes

The School is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) except to the extent it has unrelated business income. The School had no unrelated business income for the year ended June 30, 2022. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

Leadership Prep School

Notes to Financial Statements

GAAP requires the evaluation of tax positions taken in the course of preparing the School's tax returns and recognition of a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the School, and has concluded that as of June 30, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Functional Allocation of Expenses

Expenses are reported by their functional classification as program services or management and general or fundraising. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the School exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefited. Salaries and related costs are charged directly either to program services, fundraising or administration based on actual time worked in each area. Information technology costs, depreciation, interest expense, and occupancy costs are allocated based on whether the costs are associated with instructional campuses (program services) or with administrative buildings.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The School considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the School's financial position and changes in net assets.

Leadership Prep School

Notes to Financial Statements

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2021.

The School is currently assessing the impact that adopting this new guidance will have on the financial statements.

3. Property and Equipment

Property and equipment consist of the following as of June 30, 2022:

Land	\$ 2,444,593
Buildings and improvements	13,723,535
Furniture and equipment	1,610,456
Vehicles	1,650
Leashold Improvements	<u>66,818</u>
Total property and equipment	17,847,052
Less accumulated depreciation	<u>(3,128,878)</u>
Property and equipment, net	<u>\$ 14,718,174</u>

Depreciation expense for the year ended June 30, 2022 was \$673,557.

4. Capital Lease

The School has entered into a lease agreement that is classified as a capital lease obligation. The present value of future minimum lease payments under this agreement and the corresponding liability have been recorded in the financial statements as capitalized equipment and capital lease payable, respectively. Amortization of the leased equipment is included in depreciation and the net book value of the leased equipment is \$26,030 as of June 30, 2022. The lease payable is due in monthly installments with an interest rate of 5.93%. The lease matures on November 1, 2024. Capital lease payable totaled \$26,027 as of June 30, 2022.

Leadership Prep School

Notes to Financial Statements

Future minimum lease payments under the lease agreement are as follows for the years ending June 30:

2023	\$ 11,971
2024	11,971
2025	<u>3,991</u>
Total minimum lease payments	27,933
Less amount representing interest	<u>(1,906)</u>
Present value of minimum lease payments	26,027
Less current maturities	<u>(10,716)</u>
Capital lease obligation, net of current maturities	<u>\$ 15,311</u>

5. Long-Term Debt

In August 2016, the School completed a transaction in which the Arlington Higher Education Finance Corporation issued \$18,710,000 Education Revenue Bonds Series 2016A and \$415,000 Education Revenue Bonds Taxable Series 2016B and loaned the proceeds of the bonds to the School. The bonds were used as education revenue bonds, and have interest rates ranging from 1% to 6%, and are collateralized by a deed of trust. The School used the bond proceeds for the construction and equipping of an education facility at 8100 Teel Parkway in Frisco, Texas, pay debt issuance costs and pay off existing debt. The 2016 bond series was paid in full from proceeds from the issuance of the 2021 bond series.

In December 2021, the School completed a transaction in which the Arlington Higher Education Finance Corporation (AHEFC) issued \$16,295,000 Education Revenue Bonds Series 2021A and \$415,000 Education Revenue Bonds Taxable Series 2021B and loaned the proceeds of the bonds to the School. The School entered into a loan agreement with AHEFC for the proceeds of the bond issue, which are held by the bond trustee, Wilmington Trust, National Association. The bonds were issued as education revenue bonds, and have interest rates ranging from 1% to 4%, and are collateralized by a pledge of revenues of the School. The School is required to use the bond proceeds to refinance existing debt and pay debt issuance costs.

The 2021A and 2021B bonds will be guaranteed under the Bond Guarantee Program of the Permanent School Fund of Texas (PSF). Accordingly, \$456,658 of bond proceeds were transferred to the PSF in December 2021 to be held in the charter reserve fund and will be amortized over the life of the bond.

The loan agreement and Supplemental Master Trust Indenture for the 2021 series bonds establishes a debt service coverage ratio, which stipulates that available revenues for each fiscal year must be equal to at least 1.10 times the annual debt service of the School until the individual bond or notes have been paid in full. At June 30, 2022, the School was in compliance

Leadership Prep School Notes to Financial Statements

with this covenant and all other applicable financial covenants contained in the Supplemental Master Trust Indentures and loan agreements.

The following is a summary of changes in the School's total long-term debt for the year ended June 30, 2022:

	Beginning balance	Additions	Reductions	Amortization	Ending balance	Current maturities
Bonds payable:						
Series 2016A	\$ 17,925,000	\$ -	\$ (17,925,000)	\$ -	\$ -	\$ -
Series 2021A and 2021B	-	16,710,000	(415,000)	-	16,295,000	430,000
Total bonds payable	17,925,000	16,710,000	(18,340,000)	-	16,295,000	430,000
Issuance costs	(320,280)	(661,164)	-	642,893	(338,551)	-
Bond premium	318,363	1,008,966	-	(337,982)	989,347	-
TEA PSF Guarantee	-	(456,658)	-	9,613	(447,045)	-
Total bonds payable, net	<u>\$ 17,923,083</u>	<u>\$ 16,601,144</u>	<u>\$ (18,340,000)</u>	<u>\$ 314,524</u>	<u>\$ 16,498,751</u>	<u>\$ 430,000</u>

Debt service requirements, are as follows for the years ending June 30:

	Principal	Interest	Total
2023	\$ 430,000	\$ 506,212	\$ 936,212
2024	450,000	489,013	939,013
2025	465,000	471,012	936,012
2026	360,000	452,413	812,413
2027	375,000	438,012	813,012
2028-2032	2,110,000	1,952,863	4,062,863
2033-2037	2,570,000	1,495,462	4,065,462
2038-2042	3,025,000	1,030,713	4,055,713
2043-2047	3,445,000	613,225	4,058,225
2048-2051	3,065,000	184,181	3,249,181
Total	<u>\$ 16,295,000</u>	<u>\$ 7,633,106</u>	<u>\$ 23,928,106</u>

6. Net Assets with Donor Restrictions

Net assets with donor restrictions are available to pay expenditures as allowed by Section 45.105(c) of the Texas Education Code.

Leadership Prep School

Notes to Financial Statements

7. Liquidity and Availability of Resources

The School has \$9,515,970 of financial assets available to be used within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$7,436,665 and amounts due from the TEA totaling \$2,079,305. None of the financial assets are subject to donor restrictions that make them unavailable for general expenditure within one year of the statement of financial position.

The School relies on state aid 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, the School considers all expenditures related to its ongoing activities of education, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of the School's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash.

8. Defined Benefit Pension Plan

Plan Description

The School full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multi-employer, defined benefit pension plan. All risks and costs are not shared by the School, but are the liability of the State of Texas.

Funding Policy

Plan members contributed 8% of their annual covered salary in 2022. The school contributes 7.75% for new members of the first 90 days of employment, and the state of Texas contributes 7.75%. Additionally, the School makes a 1.7% non-OASDI payment for all TRS eligible employees. The School contributions do not represent more than 5% of the TRS' total contributions. For the year ended June 30, 2022, the School contributed \$282,218 to TRS.

The risks of participating in a multi-employer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multi-employer 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 not withdrawal penalty for leaving TRS.

Leadership Prep School Notes to Financial Statements

Total TRS plan assets as of the most recent fiscal year ended for TRS of August 31, 2021 totaled \$223 billion. Accumulated benefit obligation as of August 31, 2021 totaled \$227 billion. The plan was 88.79% funded as of August 31, 2021.

9. Health Care Coverage

During the year ended June 30, 2022, employees of the School were covered by the TRS Active Employee Health Insurance Plan. The School contributed \$417 per month per employee for the period from July 1, 2021 to June 30, 2022 to the plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

10. Related Party Transactions, Commitments and Contingencies

The School leases a campus facility from a board member's church. The lease agreement requires monthly payments of \$79,948 through 2027 and includes rent, utilities and maintenance. Management believes the terms of the lease with the church are more favorable to the School than could be attained through another lessor.

The following is a schedule of future minimum lease payments under this operating lease agreement for the years ending June 30:

2023	\$ 959,376
2024	959,376
2025	959,376
2026	903,882
2027	737,400
Thereafter	<u>368,700</u>
	<u>\$ 4,888,110</u>

Contingencies

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

Leadership Prep School Notes to Financial Statements

11. Functional Expenses

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Expenses	Debt Service	Total
Program Services:						
Instructional and instructional related services	\$ 5,442,226	\$ 117,723	\$ 534,101	\$ 381,370	\$ 922,793	\$ 7,398,213
Instructional and school leadership	540,029	28,823	26,033	17,456	-	612,341
Student support services	609,293	91,760	65,174	63,405	-	829,632
Support services	-	1,143,805	-	524,530	-	1,668,335
Community services	23,143	16,948	500	24,615	-	65,206
	<u>6,614,691</u>	<u>1,399,059</u>	<u>625,808</u>	<u>1,011,376</u>	<u>922,793</u>	<u>10,573,727</u>
Support Services:						
Administrative support services	464,035	121,154	23,112	40,234	102,532	751,067
Support services	234,404	283,015	76,792	-	-	594,211
Fundraising	16,007	120	-	120	-	16,247
	<u>714,446</u>	<u>404,289</u>	<u>99,904</u>	<u>40,354</u>	<u>102,532</u>	<u>1,361,525</u>
	<u>\$ 7,329,137</u>	<u>\$ 1,803,348</u>	<u>\$ 725,712</u>	<u>\$ 1,051,730</u>	<u>\$ 1,025,325</u>	<u>\$ 11,935,252</u>

12. Subsequent Events

The School has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.

Compliance Report

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*

Board of Directors of
Leadership Prep School
Frisco, Texas

We have audited, 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, the financial statements of Leadership Prep School (School) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



A Limited Liability Partnership

Arlington, Texas
November 11, 2022

Leadership Prep School
Schedule of Findings and Responses
June 30, 2022

Finding 2022-001

Criteria: The TEA's Attendance Handbook and the School's internal control procedure specify that attendance records be supported by source documents.

Condition: We examined attendance records for the period from January 19, 2022 to February 28, 2022 for the 2nd grade and noted the following discrepancies.

- During the period January 19, 2022 to February 28, 2022, the number of absences reported on the teacher attendance log did not agree to the number of absences reported on the daily attendance summary in PEIMS. Management was unable to provide documentation through teacher verification reports to support these variances.

Cause: The School did not follow internal control processes.

Effect: The School's failure to implement adequate controls over records of student attendance resulted in the School being unable to support records being submitted to the PEIMS.

Recommendation: The School should review its existing processes internal control procedures and update and/or implement adequate internal control policies and procedures to reasonably ensure that the attendance data is collected consistently and accurately and is supported by adequate source documentation to demonstrate that the students reported in the system are being served.

Management's Response: Management will perform a thorough review of its existing processes and internal control procedures and update and/or implement adequate internal control policies and procedures to reasonably ensure that the attendance data is collected consistently and accurately and is supported by adequate source documentation to demonstrate that the students reported in the system are being served. Management will ensure that those doing the attendance work are receiving adequate professional development and training to perform the duties as required in the Student Attendance Accounting Handbook and may include engaging outside professional services to address any discrepancies. Management will require internal auditing of the attendance records every six weeks to ensure accuracy of records and verifications as well as to ensure proper internal control procedures are followed.

**Supplemental Information Required by
Texas Education Agency**

Leadership Prep School
Schedule of Expenses
June 30, 2022

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 7,329,137
6200	Professional and contracted services	1,803,348
6300	Supplies and materials	725,712
6400	Other operating expenses	1,051,730
6500	Debt service	<u>1,025,325</u>
		<u>\$ 11,935,252</u>

Leadership Prep School
Schedule of Assets
Year Ended June 30, 2022

Description	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 7,436,665	\$ -
1510 Land	-	2,444,593	-
1520 Buildings and improvements	-	13,723,535	-
1539 Furniture and equipment	-	1,551,764	58,692
1541 Vehicle	1,650	-	-
1552 Leasehold improvements	-	66,818	-
	<u>\$ 1,650</u>	<u>\$ 25,223,375</u>	<u>\$ 58,692</u>

**Leadership Prep School
Budgetary Comparison Schedule
Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and support:				
5700 Revenue from local and intermediate sources	\$ 411,113	\$ 393,797	\$ 393,797	\$ -
5800 State program revenues	11,677,499	11,750,889	11,750,889	-
5900 Federal program revenues	181,443	326,392	326,392	-
Total revenue and support	12,270,055	12,471,078	12,471,078	-
Expenses:				
11 Instruction	5,882,505	5,961,677	5,961,677	-
12 Instructional resources and media services	4,000	137	137	-
13 Curriculum development and instructional staff development	499,168	513,605	513,605	-
21 Instructional leadership	115,777	90,116	90,116	-
23 School leadership	495,210	522,226	522,226	-
31 Guidance, counseling and evaluation services	503,092	509,047	509,047	-
32 Social work services	-	19,658	19,658	-
33 Health services	79,199	105,371	105,371	-
35 Food services	34,000	35,692	35,692	-
36 Extracurricular activities	219,492	159,864	159,864	-
41 General administration	738,936	648,535	648,535	-
51 Facilities maintenance and operations	2,276,463	2,034,411	2,034,411	-
52 Security	60,587	57,304	57,304	-
53 Data processing services	81,732	170,831	170,831	-
61 Community services	68,278	65,206	65,206	-
71 Debt service	884,597	1,025,325	1,025,325	-
81 Fundraising	-	16,247	16,247	-
Total expenses	11,943,036	11,935,252	11,935,252	-
Excess of revenues over expenses	\$ 327,019	\$ 535,826	\$ 535,826	\$ -

**Leadership Prep School
Education Program Schedule
Year Ended June 30, 2022**

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did you LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$72,996
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PIC's 24, 26, 28, 29, 30, 34)	\$99,953
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies sand procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year	\$30,616
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PIC's 25, 35)	\$22,773

Leadership Prep School
Schedule of Real Property Ownership Interest
Year Ended June 30, 2022

Description	Property Address	Total Assessed Value	Ownership Interest		
			Local	State	Federal
LEADERSHIP PREP SCHOOL BLK A LOT 1, 4.132 Acres	8100 Teel Pkwy, Frisco, TX 75034	\$ 2,519,859		\$ 2,519,859	
LEADERSHIP PREP SCHOOL BLK A LOT 1, MA/MA2 ADDITIONS	8100 Teel Pkwy, Frisco, TX 75034	11,361,485		11,361,485	

**Leadership Prep School
Schedule of Related Party Transactions
Year Ended June 30, 2022**

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During Fiscal Year</u>	<u>Principal Balance Due</u>
Elevate Life Church	Shiela Craft David Stroud	Two Pastors at Elevate Life Church Serve on the board of the School	Financial	Term: August 11, 2011 - December 31, 2027 Base Rent: \$46,780 Utilities: \$5,000 Maintenance and Janitorial: \$9,670	State	Monthly	\$ 737,400	N/A

Leadership Prep School
Schedule of Related Party Compensation and Benefits
Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During Fiscal Year</u>
None							