



FINANCIAL STATEMENTS WITH COMPLIANCE REPORTS AND SUPPLEMENTAL INFORMATION JUNE 30, 2023

LEADERSHIP PREP SCHOOL



Leadership Prep School

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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, 2023, at a meeting of the governing body of the charter holder on the 14th day of November, 2023.



Scott D. Armendariz (Nov 14, 2023 22:52 CST)

Scott Armendariz, Board Secretary



Sheila Craft (Nov 14, 2023 20:39 CST)

Sheila Craft, Board President



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, 2023, 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, 2023, 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Leadership Prep School changed its method of accounting for its leases effective July 1, 2022 as required by the provisions of Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to that matter.

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 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.

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, as required by the Texas Education Agency and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the 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 GAAS. In our opinion, the supplemental 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 14, 2023 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 14, 2023

Leadership Prep School
Statement of Financial Position
June 30, 2023

Assets

Current assets:

Cash and cash equivalents	\$ 6,880,544
Due from Texas Education Agency	2,756,175
Accounts receivable	4,231
Prepaid expense	<u>181,723</u>

Total current assets 9,822,673

Non-current assets:

Property and equipment, net	15,297,042
Right-of-use asset - finance lease, net	13,783
Right-of-use asset - operating leases, net	<u>2,909,502</u>

Total non-current assets 18,220,327

Total assets \$ 28,043,000

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 472,014
Accrued compensation	941,789
Accrued liabilities	40,248
Deferred revenue	76,899
Current maturities of long-term debt	450,000
Right-of-use liabilities - finance lease, current	11,258
Right-of-use liabilities - operating leases, current	<u>746,120</u>

Total current liabilities 2,738,328

Non-current liabilities:

Long-term debt, net	15,611,825
Right-of-use liabilities - finance lease, net	5,884
Right-of-use liabilities - operating leases, net	<u>2,163,382</u>

Total non-current liabilities 17,781,091

Total liabilities 20,519,419

Net assets:

Without donor restrictions	414,209
With donor restrictions	<u>7,109,372</u>

Total net assets 7,523,581

Total liabilities and net assets \$ 28,043,000

See notes to financial statements.

Leadership Prep School
Statement of Activities
Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Local support:			
5742 Earnings from temporary deposits and investments	\$ 13,716	\$ -	\$ 13,716
5744 Foundations, other nonprofit organizations, gifts and bequests	12,627	-	12,627
5749 Other revenue from local sources	342,833	16,870	359,703
5750 Revenues from cocurricular activities	17,059	-	17,059
Total local support	386,235	16,870	403,105
State program revenues:			
5811 Per Capita Apportionment	-	814,733	814,733
5812 Foundation School Program Act Entitlements	-	11,503,649	11,503,649
5829 State Program Revenues Distributed by TEA	-	38,313	38,313
Total state program revenue	-	12,356,695	12,356,695
Federal program revenues:			
5919 Federal revenues distributed through other government entities	-	21,310	21,310
5929 IDEA, Part B, Formula	-	991,874	991,874
Total federal program revenue	-	1,013,184	1,013,184
Net assets released from restrictions- Restrictions satisfied by payments	12,707,572	(12,707,572)	-
Total revenue and support	13,093,807	679,177	13,772,984
Expenses:			
11 Instruction	\$ 6,418,363	\$ -	\$ 6,418,363
12 Instructional resources and media services	547	-	547
13 Curriculum development and instructional staff development	751,365	-	751,365
21 Instructional leadership	104,597	-	104,597
23 School leadership	552,284	-	552,284
31 Guidance, counseling and evaluation services	680,640	-	680,640
32 Social work services	185,733	-	185,733
33 Health services	111,319	-	111,319
35 Food services	43,442	-	43,442
36 Extracurricular activities	173,411	-	173,411
41 General administration	763,007	-	763,007
51 Facilities maintenance and operations	2,226,432	-	2,226,432
52 Security	122,560	-	122,560
53 Data processing services	300,514	-	300,514
61 Community services	48,557	-	48,557
71 Debt service	519,146	-	519,146
81 Fundraising	18,557	-	18,557
Total expenses	13,020,474	-	13,020,474
Change in net assets	73,333	679,177	752,510
Net assets at beginning of year	340,876	6,430,195	6,771,071
Net assets at end of year	<u>\$ 414,209</u>	<u>\$ 7,109,372</u>	<u>\$ 7,523,581</u>

See notes to financial statements.

Leadership Prep School
Statement of Cash Flows
Year Ended June 30, 2023

Cash flows from operating activities:

Change in net assets	\$ 752,510
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	675,562
Amortization of right-of-use assets	719,412
Amortization of debt issuance costs	(6,926)
Changes in assets and liabilities:	
Due from Texas Education Agency	(677,193)
Accounts receivable	(4,231)
Prepaid expense	(6,582)
Accounts payable	402,339
Accrued compensation	85,758
Accrued liabilities	8,174
Deferred revenue	(78,434)
Right-of-use liabilities - operating leases	<u>(709,074)</u>
Net cash provided by operating activities	1,161,315

Cash flows from investing activities:

Purchases of property and equipment	(1,278,551)
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Cash flows from financing activities:

Principal payments on right-of-use liabilities - finance lease	(8,885)
Principal payments of long-term debt	<u>(430,000)</u>
Net cash used by financing activities	<u>(438,885)</u>

Net decrease in cash and cash equivalents	(556,121)
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Cash and cash equivalents at beginning of year	<u>7,436,665</u>
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Cash and cash equivalents at end of year	<u><u>\$ 6,880,544</u></u>
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Supplemental disclosure of cash flow information:

Cash paid during the year for interest	<u><u>\$ 506,587</u></u>
Right-of-use asset obtained in exchange for lease liabilities	<u><u>\$ 3,618,576</u></u>

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 students to learn, grow and lead for a lifetime 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 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, 2023, 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, 2023, the School received 97% 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, 2023.

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, 2023, the School has \$380,617 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, 2023. 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, 2023, 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.

Accounting Pronouncement Adopted

The School adopted ASU No. 2016-02, *Leases*, (Topic 842). The guidance in the ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The ASU also required expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. The School elected to adopt the transition relief provisions from ASU 2016-02 and recorded the impact of adoption as of July 1, 2022, using the modified retrospective method resulting in the recording of right-of-use (ROU) asset and liabilities – operating leases totaling \$3,618,576. As such, no changes were required to net assets as of July 1, 2022.

Leadership Prep School
Notes to Financial Statements

3. Property and Equipment

Property and equipment consist of the following as of June 30, 2023:

Land	\$ 2,444,593
Buildings and improvements	13,890,041
Furniture and equipment	1,942,735
Vehicles	1,650
Leashold improvements	66,818
Construction in progress	<u>669,386</u>
Total property and equipment	19,015,223
Less accumulated depreciation	<u>(3,718,181)</u>
Property and equipment, net	<u>\$ 15,297,042</u>

Depreciation expense for the year ended June 30, 2023 was \$675,562.

4. Leases and Related Party Transactions

In evaluating its contracts, the School separately identifies lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office and educational spaces. The School has elected the practical expedient to not separate lease and nonlease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the nonlease component.

Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The School determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The School uses the implicit rate when readily determinable. As the lease do not provide an implicit rate, the School uses the incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments was derived by reference to the interest paid on the School's debt.

Leadership Prep School

Notes to Financial Statements

The lease term may include options to extend or to terminate the lease that the School is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. The School has elected not to record leases with an initial term of 12 months or less on the statement of financial position.

Nature of Leases

The School has entered into an operating lease arrangement for a building used for operations and a finance lease for equipment. The School also leases a campus facility from a board member's church. The leases expire through December 2027. The operating leases require the School to pay all executory costs (property taxes, maintenance and insurance). Termination of the leases is generally prohibited unless there is a violation under the lease agreements.

Future minimum lease payments and a reconciliation to the statement of financial position at June 30, 2023 are as follows for the years ending June 30:

	Operating Leases	Finance Lease
2024	\$ 830,378	\$ 11,258
2025	823,323	5,884
2026	746,338	-
2027	561,360	-
2028	280,680	-
Total future discounted lease payments	3,242,079	17,142
Less present value discount	(332,577)	-
Lease liabilities	<u>\$ 2,909,502</u>	<u>\$ 17,142</u>

The following represents lease cost and required information for the year ended June 30, 2023:

	Operating Leases	Finance Lease
Total operating lease cost	<u>\$ 791,237</u>	<u>\$ 17,142</u>
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from leases	<u>\$ (709,074)</u>	<u>\$ -</u>
Financing cash flows from leases	<u>\$ -</u>	<u>\$ (8,885)</u>
Right-of-use asset in exchange for new lease liabilities	<u>\$ 3,618,576</u>	<u>\$ -</u>
Weighted-average remaining lease term	<u>4.11 years</u>	<u>1.33 years</u>
Weighted-average discount rate	<u>5%</u>	<u>5.93%</u>

Leadership Prep School Notes to Financial Statements

5. Long-Term Debt

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, 2023, the School was in compliance 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, 2023:

	Beginning balance	Additions	Reductions	Amortization	Ending balance	Current maturities
Bonds payable:						
Series 2021A and 2021B	16,295,000	-	(430,000)	-	15,865,000	450,000
Issuance costs	(275,096)	-	-	9,352	(265,744)	-
Bond premium	989,347	-	-	(33,632)	955,715	-
UW discount	(63,455)	-	-	2,157	(61,298)	-
TEA PSF Guarantee	(447,045)	-	-	15,197	(431,848)	-
Total bonds payable, net	<u>\$ 16,498,751</u>	<u>\$ -</u>	<u>\$ (430,000)</u>	<u>\$ (6,926)</u>	<u>\$ 16,061,825</u>	<u>\$ 450,000</u>

Leadership Prep School
Notes to Financial Statements

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

	Principal	Interest	Total
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	390,000	423,013	813,013
2029-2033	2,195,000	1,868,462	4,063,462
2034-2038	2,665,000	1,398,213	4,063,213
2039-2043	3,110,000	943,962	4,053,962
2044-2048	3,530,000	531,407	4,061,407
2049-2051	2,325,000	111,387	2,436,387
Total	\$ 15,865,000	\$ 7,126,894	\$ 22,991,894

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.

7. Defined Benefit Pension Plan

Plan Description

The School’s 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 2023. The School contributes 8% for new members of the first 90 days of employment, and the state of Texas contributes 8%. Additionally, the School makes a 1.8% 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, 2023, the School contributed \$375,278 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, 2022 totaled \$208 billion. Accumulated benefit obligation as of August 31, 2022 totaled \$244 billion. The plan was 75.62% funded as of August 31, 2022.

8. Health Care Coverage

During the year ended June 30, 2023, employees of the School were covered by the TRS Active Employee Health Insurance Plan. The School contributed \$410 per month per employee for the year ended June 30, 2023 to the plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

9. 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 TEA or the grantor agency.

10. Functional Expenses

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Expenses	Debt Service	Total
Program Services:						
Instructional and instructional related services	\$ 5,817,128	\$ 187,674	\$ 745,445	\$ 420,028	\$ 467,231	\$ 7,637,506
Instructional and school leadership	558,948	20,925	46,917	30,091	-	656,881
Student support services	817,933	234,055	84,232	58,325	-	1,194,545
Support services	-	1,189,613	-	564,713	-	1,754,326
Community services	25,773	4,948	365	17,471	-	48,557
	<u>7,219,782</u>	<u>1,637,215</u>	<u>876,959</u>	<u>1,090,628</u>	<u>467,231</u>	<u>11,291,815</u>
Support Services:						
Administrative support services	354,456	301,871	39,975	66,705	51,915	814,922
Support services	536,897	244,039	114,244	-	-	895,180
Fundraising	18,396	100	-	61	-	18,557
	<u>909,749</u>	<u>546,010</u>	<u>154,219</u>	<u>66,766</u>	<u>51,915</u>	<u>1,728,659</u>
	<u>\$ 8,129,531</u>	<u>\$ 2,183,225</u>	<u>\$ 1,031,178</u>	<u>\$ 1,157,394</u>	<u>\$ 519,146</u>	<u>\$ 13,020,474</u>

Leadership Prep School
Notes to Financial Statements

11. Liquidity and Availability of Resources

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.

The Schools financial assets available within one year of the statements of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 6,880,544
Due from Texas Education Agency	2,756,175
Accounts receivable	<u>4,231</u>
Total financial assets available for general expenditure	<u><u>\$ 9,640,950</u></u>

12. Subsequent Events

The School has evaluated subsequent events through November 14, 2023, the date the financial statements were available to be issued and concluded that no additional disclosures are required.

**Compliance Reports and
Supplemental Information**



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 Prep School

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, 2023, 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 14, 2023.

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. However, material weaknesses or significant deficiencies may exist that were not identified.

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 14, 2023



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

To the Board of Directors of
Leadership Prep School

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Leadership Prep School's (School) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2023. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the School's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. 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 GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 Limited Liability Partnership

Arlington, Texas
November 14, 2023

Leadership Prep School
Schedule of Findings and Questioned Costs
June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major federal programs or cluster:	
Education Stabilization Fund Under the Coronavirus Aid, Relief, And Economic Security Act	ALN 84.425U
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary of Prior Year Audit Findings

None

Leadership Prep School
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/ Pass through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through entity identifying number	Federal Expenditures
U.S. Department of Education:			
Passed through the Texas Education Agency:			
Special Education Cluster:			
Special Education Grants to states (IDEA, Part B)	84.027A	236600010618046600	\$ 167,340
COVID-19 - Special Education Grants to States (IDEA, Part B)	84.027X	225350010618045350	<u>38,866</u>
Total Special Education Cluster			206,206
COVID-19 - Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act			
Grants for State Assessments and Related Activities	84.425U	21528043061804	784,189
Supporting Effective Instruction State Grants	84.369A	69552202	1,479
English Language Acquisition State Grants	84.367A	-	10,847
	84.365A	-	<u>10,463</u>
Total U.S. Department of Education and Total Expenditures of Federal Awards			<u>\$1,013,184</u>

See notes to schedule of expenditures of federal awards.

Leadership Prep School

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Leadership Prep School (School). The information in this Schedule is presented in accordance with the requirements of Title U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Leadership Prep School
Schedule of Expenses
Year Ended June 30, 2023

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 8,129,531
6200	Professional and contracted services	2,183,225
6300	Supplies and materials	1,031,178
6400	Other operating expenses	1,157,394
6500	Debt service	<u>519,146</u>
		<u>\$ 13,020,474</u>

Leadership Prep School
Schedule of Assets
June 30, 2023

Description	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 6,880,544	\$ -
1510 Land	-	2,444,593	-
1520 Buildings and improvements	-	13,890,041	-
1539 Furniture and equipment	-	1,942,735	-
1541 Vehicle	1,650	-	-
1551 Right-of-use asset - operating lease	-	2,909,502	-
1552 Leasehold improvements	-	66,818	-
1559 Right-of-use asset - finance lease	-	13,783	-
1580 Construction in progress	-	669,386	-
	<u>\$ 1,650</u>	<u>\$ 28,817,402</u>	<u>\$ -</u>

Leadership Prep School
Budgetary Comparison Schedule
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and support:				
5700 Revenue from local and intermediate sources	\$ 400,000	\$ 403,105	\$ 403,105	\$ -
5800 State program revenues	12,367,951	12,356,695	12,356,695	-
5900 Federal program revenues	787,790	1,013,184	1,013,184	-
Total revenue and support	13,555,741	13,772,984	13,772,984	-
Expenses:				
11 Instruction	6,581,764	6,418,363	6,418,363	-
12 Instructional resources and media services	1,500	547	547	-
13 Curriculum development and instructional staff development	793,909	751,365	751,365	-
21 Instructional leadership	98,299	104,597	104,597	-
23 School leadership	526,152	552,284	552,284	-
31 Guidance, counseling and evaluation services	490,305	680,640	680,640	-
32 Social work services	158,442	185,733	185,733	-
33 Health services	132,615	111,319	111,319	-
35 Food services	41,300	43,442	43,442	-
36 Extracurricular activities	224,753	173,411	173,411	-
41 General administration	814,518	763,007	763,007	-
51 Facilities maintenance and operations	2,094,457	2,226,432	2,226,432	-
52 Security and monitoring services	75,392	122,560	122,560	-
53 Data processing services	104,012	300,514	300,514	-
61 Community services	67,615	48,557	48,557	-
71 Debt service	572,977	519,146	519,146	-
81 Fundraising	-	18,557	18,557	-
Total expenses	12,778,010	13,020,474	13,020,474	-
Excess of revenues over expenses	<u>\$ 777,731</u>	<u>\$ 752,510</u>	<u>\$ 752,510</u>	<u>\$ -</u>

**Leadership Prep School
Education Programs Schedule
Year Ended June 30, 2023**

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.	\$53,976
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)	\$217,701
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	\$57,899
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PIC's 25, 35)	\$61,998

Leadership Prep School
Schedule of Real Property Ownership Interest
Year Ended June 30, 2023

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	12,835,723		12,835,723	

**Leadership Prep School
Schedule of Related Party Transactions
Year Ended June 30, 2023**

<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 (ELC)	Shiela Craft, Board President	Pastor at ELC	Financial	Term: August 11, 2011 - December 31, 2027 Base Rent: \$46,780 Remodel: \$18,498 Utilities: \$5,000 Maintenance and Janitorial: \$9,670	State	Monthly	\$ 1,022,376	N/A

Leadership Prep School
Schedule of Related Party Compensation and Benefits
Year Ended June 30, 2023

<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							