

# Leadership Prep School

Financial Statements with  
Compliance Report and Supplemental Information June  
30, 2024



# Leadership Prep School


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**Leadership Prep School**  
**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, 2024, at a meeting of the governing body of the charter holder on the 28th day of October, 2024.

  
\_\_\_\_\_  
Scott D. Armendariz (Oct 30, 2024 19:09 CDT)

\_\_\_\_\_  
Scott Armendariz, Board Secretary

  
\_\_\_\_\_  
Sheila Craft (Oct 30, 2024 10:17 CDT)

\_\_\_\_\_  
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, 2024, 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 present fairly, in all material respects, the financial position of Leadership Prep School as of June 30, 2024, 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 opinions.

#### ***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, Leadership Prep School changed its method of accounting for the allowance for credit losses effective July 1, 2023 as required by the provisions of Financial Accounting Standards Board Accounting Standards Update 2016-03 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. 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 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 October 28, 2024 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  
October 28, 2024

**Leadership Prep School**  
**Statement of Financial Position**  
**June 30, 2024**

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**Assets**

**Current assets:**

Cash and cash equivalents	\$ 4,889,461
Due from Texas Education Agency	2,035,473
Accounts receivable	4,485
Prepaid expense	199,786

<b>Total current assets</b>	<b>7,129,205</b>
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**Non-current assets:**

Property and equipment, net	20,525,676
Right-of-use asset - finance lease, net	3,445
Right-of-use assets - operating leases, net	2,163,382

<b>Total non-current assets</b>	<b>22,692,503</b>
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<b>Total assets</b>	<b>\$ 29,821,708</b>
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**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable	\$ 17,218
Accrued compensation	936,832
Accrued liabilities	49,131
Deferred revenue	53,908
Current maturities of long-term debt	465,000
Right-of-use liability - finance lease, current	5,884
Right-of-use liabilities - operating leases, current	823,323

<b>Total current liabilities</b>	<b>2,351,296</b>
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**Non-current liabilities:**

Long-term debt, net	18,115,705
Right-of-use liabilities - operating leases, net	1,340,059

<b>Total non-current liabilities</b>	<b>19,455,764</b>
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<b>Total liabilities</b>	<b>21,807,060</b>
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**Net assets:**

Without donor restrictions	474,698
With donor restrictions	7,539,950

<b>Total net assets</b>	<b>8,014,648</b>
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<b>Total liabilities and net assets</b>	<b>\$ 29,821,708</b>
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See notes to financial statements.

**Leadership Prep School**  
**Statement of Activities**  
**Year Ended June 30, 2024**

	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support:</b>			
<b>Local support:</b>			
5742 Earnings from temporary deposits and investments	\$ 24,994	\$ -	\$ 24,994
5744 Foundations, other nonprofit organizations, gifts and bequests	2,446	-	2,446
5749 Other revenue from local sources	341,239	8,497	349,736
<b>Total local support</b>	368,679	8,497	377,176
<b>State program revenues:</b>			
5811 Per Capita Apportionment	-	499,055	499,055
5812 Foundation School Program Act Entitlements	-	12,193,656	12,193,656
5829 State Program Revenues Distributed by TEA	-	147,921	147,921
5831 Teacher Retirement or TRS Care - On-Behalf Payments	-	476,310	476,310
<b>Total state program revenues</b>	-	13,316,942	13,316,942
<b>Federal program revenues:</b>			
5919 Federal revenues distributed through other government entities	-	49,687	49,687
5929 Federal Revenues Distributed by the Texas Education Agency	-	214,866	214,866
<b>Total federal program revenues</b>	-	264,553	264,553
Net assets released from restrictions- Restrictions satisfied by payments	13,159,414	(13,159,414)	-
<b>Total revenue and support</b>	13,528,093	430,578	13,958,671
<b>Expenses:</b>			
11 Instruction	\$ 6,527,094	\$ -	\$ 6,527,094
12 Instructional resources and media services	557	-	557
13 Curriculum development and instructional staff development	768,122	-	768,122
21 Instructional leadership	68,811	-	68,811
23 School leadership	674,865	-	674,865
31 Guidance, counseling and evaluation services	699,693	-	699,693
32 Social work services	174,697	-	174,697
33 Health services	90,811	-	90,811
35 Food services	50,269	-	50,269
36 Extracurricular activities	174,920	-	174,920
41 General administration	506,960	-	506,960
51 Facilities maintenance and operations	2,327,770	-	2,327,770
52 Security and monitoring services	327,018	-	327,018
53 Data processing services	474,298	-	474,298
61 Community services	79,235	-	79,235
71 Debt service	503,632	-	503,632
81 Fundraising	18,852	-	18,852
<b>Total expenses</b>	13,467,604	-	13,467,604
<b>Change in net assets</b>	60,489	430,578	491,067
<b>Net assets at beginning of year</b>	414,209	7,109,372	7,523,581
<b>Net assets at end of year</b>	\$ 474,698	\$ 7,539,950	\$ 8,014,648

See notes to financial statements.



**Leadership Prep School**  
**Statement of Cash Flows**  
**Year Ended June 30, 2024**

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**Cash flows from operating activities:**

Change in net assets	\$ 491,067
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	722,437
Amortization of right-of-use assets	746,120
Amortization of debt issuance costs	(1,120)
Changes in assets and liabilities:	
Due from Texas Education Agency	720,702
Accounts receivable	(254)
Prepaid expense	(18,063)
Accounts payable	(454,796)
Accrued compensation	(4,957)
Accrued liabilities	8,883
Deferred revenue	(22,991)
Right-of-use liabilities - operating leases	<u>(746,120)</u>
Net cash provided by operating activities	1,440,908

**Cash flows from investing activities:**

Purchases of property and equipment	<u>(5,940,733)</u>
Net cash used by investing activities	(5,940,733)

**Cash flows from financing activities:**

Principal payments on right-of-use liabilities - finance lease	(11,258)
Proceeds from long-term debt	3,000,000
Payment of debt issuance costs	(30,000)
Principal payments of long-term debt	<u>(450,000)</u>
Net cash provided by financing activities	<u>2,508,742</u>

Net decrease in cash and cash equivalents (1,991,083)

**Cash and cash equivalents at beginning of year** 6,880,544

**Cash and cash equivalents at end of year** \$ 4,889,461

**Supplemental disclosure of cash flow information:**

Cash paid during the year for interest	<u><u>\$ 488,977</u></u>
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# Leadership Prep School

## Notes to Financial Statements

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### 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

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### ***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, 2024, 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, 2024, 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 35 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, 2024.

# Leadership Prep School

## Notes to Financial Statements

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### ***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, 2024, the School has \$564,965 of unrecognized 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, 2024. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

## **Leadership Prep School**

### **Notes to Financial Statements**

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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, 2024, 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 2016-03, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, as amended, which modified the measurement of expected credit losses on certain financial instruments. The School adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the School's financial statements but did change how the allowance for credit losses is determined.

**Leadership Prep School**  
**Notes to Financial Statements**

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### 3. Property and Equipment

Property and equipment consist of the following as of June 30, 2024:

Land	\$ 7,447,936
Buildings and improvements	13,917,213
Furniture and equipment	2,031,908
Vehicles	1,650
Leashold improvements	66,818
Construction in progress	<u>1,490,431</u>
<b>Total property and equipment</b>	<b>24,955,956</b>
Less accumulated depreciation	<u>(4,430,280)</u>
<b>Property and equipment, net</b>	<b><u>\$ 20,525,676</u></b>

Depreciation expense for the year ended June 30, 2024 totaled \$722,437.

### 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 right-of-use (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

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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, 2024 are as follows for the years ending June 30:

	Operating Leases	Finance Lease
2025	\$ 823,323	\$ 5,884
2026	746,338	-
2027	561,360	-
2028	280,680	-
Total future discounted lease payments	2,411,701	5,884
Less present value discount	(248,319)	-
Lease liabilities	<u>\$ 2,163,382</u>	<u>\$ 5,884</u>

The following represents lease cost and required information for the year ended June 30, 2024:

	Operating Leases	Finance Lease
Total operating lease cost	<u>\$ 830,755</u>	<u>\$ 11,971</u>
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from leases	<u>\$ (746,120)</u>	<u>\$ -</u>
Financing cash flows from leases	<u>\$ -</u>	<u>\$ (11,258)</u>
Weighted-average remaining lease term	<u>3.18 years</u>	<u>0.5 years</u>
Weighted-average discount rate	<u>5%</u>	<u>5.93%</u>

# Leadership Prep School

## Notes to Financial Statements

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### 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, 2024, 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 School has a line of credit under the terms of a loan agreement with a bank expiring during July 2026. The loan agreement provides for advances up to \$10,000,000 bearing interest at the secured overnight financing rate (5.35% at June 30, 2024) plus 2%, payable monthly. The advances are collateralized by substantially all of the School's assets and is guaranteed by the School's member. The outstanding balance totaled \$3,000,000 as of June 30, 2024.

The following is a summary of changes in the School's total long-term debt for the year ended June 30, 2024:

	Beginning balance	Additions	Reductions	Amortization	Ending balance	Current maturities
<b>Long-term debt:</b>						
Bonds payable-						
Series 2021A and 2021B	\$ 15,865,000	\$ -	\$ (450,000)	\$ -	\$ 15,415,000	\$ 465,000
Line of credit	-	3,000,000	-	-	3,000,000	-
<b>Total long-term debt</b>	15,865,000	3,000,000	(450,000)	-	18,415,000	465,000
Issuance costs	(265,744)	(30,000)	-	15,158	(280,586)	-
Bond premium	955,715	-	-	(33,632)	922,083	-
UW discount	(61,298)	-	-	2,157	(59,141)	-
TEA PSF Guarantee	(431,848)	-	-	15,197	(416,651)	-
<b>Long-term debt, net</b>	<u>\$ 16,061,825</u>	<u>\$ 2,970,000</u>	<u>\$ (450,000)</u>	<u>\$ (1,120)</u>	<u>\$ 18,580,705</u>	<u>\$ 465,000</u>



**Leadership Prep School**  
**Notes to Financial Statements**

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

	Principal	Interest	Total
2025	\$ 465,000	\$ 471,012	\$ 936,012
2026	3,360,000	452,413	3,812,413
2027	375,000	438,012	813,012
2028	390,000	423,013	813,013
2029	405,000	407,412	812,412
2030-2034	2,285,000	1,780,663	4,065,663
2035-2039	2,755,000	1,302,862	4,057,862
2040-2044	3,200,000	858,756	4,058,756
2045-2049	3,610,000	447,570	4,057,570
2050-2051	1,570,000	56,168	1,626,168
<b>Total</b>	<b>\$ 18,415,000</b>	<b>\$ 6,637,881</b>	<b>\$ 25,052,881</b>

**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. Contributions of Nonfinancial Assets**

The School received on-behalf payments in the form of benefits paid out by the Teacher Retirement System. The School received the following contributions of nonfinancial assets during the year ended June 30, 2024:

	Payroll Costs
Program Services:	
Instructional and instructional related services	\$ 315,384
Instructional and school leadership	37,643
Student support services	57,040
Support services	41,078
Community services	1,721
	452,866
Support Services:	
Administrative support services	17,705
Support services	5,077
Fundraising	662
	23,444
	<b>\$ 476,310</b>

# Leadership Prep School

## Notes to Financial Statements

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### 8. 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 8.25% of their annual covered salary in 2024. The School contributes 8.25% for new members of the first 90 days of employment, and the state of Texas contributes 8.25%. Additionally, the School makes a 1.9% 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, 2024, the School contributed \$363,923 to TRS. The School also recognized an additional on-behalf revenue and expense totaling \$473,310 representing support provided by the state.

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.

Total TRS plan assets as of the most recent fiscal year ended for TRS of August 31, 2023 totaled \$213 billion. Accumulated benefit obligation as of August 31, 2023 totaled \$256 billion. The plan was 73.15% funded as of August 31, 2023.

### 9. Health Care Coverage

During the year ended June 30, 2024, employees of the School were covered by the TRS Active Employee Health Insurance Plan. The School contributed \$450 per month per employee for the year ended June 30, 2024 to the plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

## Leadership Prep School Notes to Financial Statements

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### 10. 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.

### 11. Functional Expenses

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Expenses	Debt Service	Total
<b>Program Services:</b>						
Instructional and instructional related services	\$ 5,938,400	\$ 440,705	\$ 486,607	\$ 430,061	\$ 453,269	\$ 7,749,042
Instructional and school leadership	689,484	19,358	18,765	16,069	-	743,676
Student support services	941,541	122,119	74,655	52,075	-	1,190,390
Support services	-	1,564,904	-	603,332	-	2,168,236
Community services	44,986	1,992	3,008	29,249	-	79,235
	<u>7,614,411</u>	<u>2,149,078</u>	<u>583,035</u>	<u>1,130,786</u>	<u>453,269</u>	<u>11,930,579</u>
<b>Support Services:</b>						
Administrative support services	255,692	187,599	28,436	35,233	50,363	557,323
Support services	670,241	193,415	97,194	-	-	960,850
Fundraising	18,852	-	-	-	-	18,852
	<u>944,785</u>	<u>381,014</u>	<u>125,630</u>	<u>35,233</u>	<u>50,363</u>	<u>1,537,025</u>
	<u>\$ 8,559,196</u>	<u>\$ 2,530,092</u>	<u>\$ 708,665</u>	<u>\$ 1,166,019</u>	<u>\$ 503,632</u>	<u>\$ 13,467,604</u>

### 12. 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.

**Leadership Prep School**  
**Notes to Financial Statements**

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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	\$ 4,889,461
Due from Texas Education Agency	2,035,473
Accounts receivable	<u>4,485</u>
Total financial assets available for general expenditure	<u>\$ 6,929,419</u>

**13. Subsequent Events**

On October 1, 2024, the School completed a transaction in which the AHEFC issued \$25,495,000 in series 2024A and 2024B Education Revenue Bonds (Series 2024 Bonds) and loaned the proceeds to the School. Zions Bancorporation, National Association, is the trustee for the bonds. The Series 2024 Bonds are collateralized by a pledge of revenue of the School and are guaranteed by the Permanent School Fund of the State of Texas. Bond proceeds will be used to pay for the construction of a new campus. The maturity of the bonds are as follows for the years ended June 30:

2025	\$ -
2026	-
2027	240,000
2028	255,000
2029	265,000
Thereafter	<u>24,735,000</u>
	<u>\$ 25,495,000</u>

The School has evaluated subsequent events through October 28, 2024, the date the financial statements were available to be issued and concluded that no additional disclosures are required.

**Compliance Report 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, 2024, 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 October 28, 2024.

***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  
October 28, 2024

**Leadership Prep School**  
**Schedule of Expenses**  
**Year Ended June 30, 2024**

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<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 8,559,196
6200	Professional and contracted services	2,530,092
6300	Supplies and materials	708,665
6400	Other operating expenses	1,166,019
6500	Debt service	503,632
		<u>\$ 13,467,604</u>



**Leadership Prep School**  
**Schedule of Assets**  
**June 30, 2024**

Description	Ownership Interest		
	Local	State	Federal
1110 Cash and cash equivalents	\$ -	\$ 4,889,461	\$ -
1510 Land	-	7,447,936	-
1520 Buildings and improvements	-	13,917,213	-
1539 Furniture and equipment	-	2,031,908	-
1541 Vehicle	1,650	-	-
1552 Leasehold improvements	-	66,818	-
1553 Right-of-use asset - finance lease	-	3,445	-
1554 Right-of-use asset - operating lease	-	2,163,382	-
1580 Construction in progress	-	1,490,431	-
	<u>\$ 1,650</u>	<u>\$ 32,010,594</u>	<u>\$ -</u>

**Leadership Prep School**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2024**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenue and support:</b>				
5700 Revenue from local and intermediate sources	\$ 357,397	\$ 377,176	\$ 377,176	\$ -
5800 State program revenues	13,014,708	13,316,942	13,316,942	-
5900 Federal program revenues	694,126	264,553	264,553	-
<b>Total revenue and support</b>	<b>14,066,231</b>	<b>13,958,671</b>	<b>13,958,671</b>	<b>-</b>
<b>Expenses:</b>				
11 Instruction	6,468,532	6,527,094	6,527,094	-
12 Instructional resources and media services	1,000	557	557	-
13 Curriculum development and instructional staff development	775,008	768,122	768,122	-
21 Instructional leadership	102,586	68,811	68,811	-
23 School leadership	556,851	674,865	674,865	-
31 Guidance, counseling and evaluation services	689,885	699,693	699,693	-
32 Social work services	201,455	174,697	174,697	-
33 Health services	132,659	90,811	90,811	-
35 Food services	48,658	50,269	50,269	-
36 Extracurricular activities	175,256	174,920	174,920	-
41 General administration	750,658	506,960	506,960	-
51 Facilities maintenance and operations	2,350,456	2,327,770	2,327,770	-
52 Security and monitoring services	250,000	327,018	327,018	-
53 Data processing services	308,530	474,298	474,298	-
61 Community services	68,215	79,235	79,235	-
71 Debt service	850,000	503,632	503,632	-
81 Fundraising	20,000	18,852	18,852	-
<b>Total expenses</b>	<b>13,749,749</b>	<b>13,467,604</b>	<b>13,467,604</b>	<b>-</b>
<b>Excess of revenues over expenses</b>	<b>\$ 316,482</b>	<b>\$ 491,067</b>	<b>\$ 491,067</b>	<b>\$ -</b>

**Leadership Prep School  
Education Programs Schedule  
Year Ended June 30, 2024**

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<b>Data Codes</b>	<b>Section A: Compensatory Education Programs</b>	<b>Responses</b>
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.	\$21,252
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)	\$168,643
	<b>Section B: Bilingual Education Programs</b>	
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	\$92,795
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PIC's 25, 35)	\$57,082

**Leadership Prep School**  
**Schedule of Real Property Ownership Interest**  
**Year Ended June 30, 2024**

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Description	Property Address	Total Assessed Value	Ownership Interest		
			Local	State	Federal
LEADERSHIP PREP SCHOOL BLK A LOT 1	8100 Teel Pkwy, Frisco, TX 75034	\$ 15,355,582		\$ 15,997,659	
Main Street - Majestic Gardens Drive	3645 Main St, Frisco, TX 75034	4,681,235		6,476,692	

**Leadership Prep School  
Schedule of Related Party Transactions  
Year Ended June 30, 2024**

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<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)	Sheila 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	\$ 991,566	N/A

**Leadership Prep School**  
**Schedule of Related Party Compensation and Benefits**  
**Year Ended June 30, 2024**

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<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							