

ANNUAL FINANCIAL REPORT

of

EDUCATIONAL LEADERSHIP, INC.

DBA

SOUTHWEST SCHOOLS

**For the Years Ended
August 31, 2020 and 2019**

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EDUCATIONAL LEADERSHIP, INC.

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EDUCATIONAL LEADERSHIP, INC.
CERTIFICATE OF BOARD

Educational Leadership, Inc.
Name of Charter Holder

76-0577751
Federal Employer ID Number

Southwest Schools
Name of Charter School

Harris
County

101-838
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above named Charter Holder was reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2020, at a meeting of the governing body of the Charter Holder on the _____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

NOTE: If the governing body of the Charter Holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Educational Leadership, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Educational Leadership, Inc. (the "Charter Holder") dba Southwest Schools (a nonprofit organization), which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter Holder's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter Holder's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter Holder as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The financial schedules noted as supplementary information in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2021 on our consideration of the Charter Holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 the Charter Holder'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 the Charter Holder's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 18, 2021

FINANCIAL STATEMENTS

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EDUCATIONAL LEADERSHIP, INC.
STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2020 and 2019

	2020	2019
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 6,062,943	\$ 1,373,379
Due from other governments	701,939	1,672,830
Other receivables	-	68,855
Other deposits	23,749	23,749
Prepaid items	125,976	125,976
Total current assets	6,914,607	3,264,789
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	1,259,350	1,549,245
Total noncurrent assets	1,259,350	1,549,245
Total Assets	\$ 8,173,957	\$ 4,814,034
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 186,251	\$ 129,974
Accrued wages payable	526,235	449,904
Due to other governments	619,096	-
Refundable advances	1,183,982	-
Loans payable - current maturities	90,419	166,336
Total current liabilities	2,605,983	746,214
Noncurrent liabilities:		
Loans payable, net of current maturities	350,223	442,655
Total noncurrent liabilities	350,223	442,655
Total Liabilities	2,956,206	1,188,869
Net assets:		
Without donor restrictions	2,070,361	2,376,401
With donor restrictions	3,147,390	1,248,764
Total Net Assets	5,217,751	3,625,165
Total Liabilities and Net Assets	\$ 8,173,957	\$ 4,814,034

See Notes to Financial Statements.

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EDUCATIONAL LEADERSHIP, INC.

STATEMENTS OF ACTIVITIES - EXHIBIT A-2

For the Years Ended August 31, 2020 and 2019

		2020			2019
		Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues					
Local support:					
5740	Other revenues from local sources	\$ 366,901	\$ -	\$ 366,901	\$ 560,938
5750	Revenue from co-curricular or enterprising	13,084	-	13,084	25,215
	Total local support	379,985	-	379,985	586,153
State program revenues:					
5810	Foundation school program revenues	-	18,564,579	18,564,579	18,641,613
5820	State program revenues distributed by Texas Education Agency	-	474,760	474,760	47,268
	Total state program revenues	-	19,039,339	19,039,339	18,688,881
Federal program revenues:					
5910	Federal revenues distributed by government entities other than State or Federal Agencies	-	207,830	207,830	264,000
5920	Federal revenues distributed by the Texas Education Agency	-	2,592,589	2,592,589	2,467,218
5940	Federal revenues distributed directly from the federal government	-	952,370	952,370	43,665
	Total federal program revenues	-	3,752,789	3,752,789	2,774,883
Net assets released from restrictions:					
	Restrictions satisfied by payments	20,893,502	(20,893,502)	-	-
	Total Revenues	21,273,487	1,898,626	23,172,113	22,049,917
Expenses					
Program services:					
	Educational services	17,173,350	-	17,173,350	16,264,182
Support services:					
	Administrative support services	4,305,086	-	4,305,086	4,164,461
	Fundraising	101,091	-	101,091	92,552
	Total Expenses	21,579,527	-	21,579,527	20,521,195
	Change in Net Assets	(306,040)	1,898,626	1,592,586	1,528,722
Beginning net assets		2,376,401	1,248,764	3,625,165	2,096,443
	Ending Net Assets	\$ 2,070,361	\$ 3,147,390	\$ 5,217,751	\$ 3,625,165

See Notes to Financial Statements.

EDUCATIONAL LEADERSHIP, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - EXHIBIT A-2a
For the Years Ended August 31, 2020 and 2019

2020

	2020			
	Program Activities	Supporting Activities		
	Educational Services	General and Administrative	Fundraising	Total
Expenses				
Salaries and wages	\$ 10,219,356	\$ 1,185,171	\$ 82,469	\$ 11,486,996
Benefits and payroll taxes	1,537,735	146,769	11,738	1,696,242
Total payroll expenses	<u>11,757,091</u>	<u>1,331,940</u>	<u>94,207</u>	<u>13,183,238</u>
Rental expenses	29,924	1,792,425	-	1,822,349
Contract labor	835,863	35,770	-	871,633
Maintenance and repairs	42,592	226,227	-	268,819
Utilities	121,559	256,099	-	377,658
Depreciation	355,470	-	-	355,470
Supplies	2,053,231	93,992	2,776	2,149,999
Food	727,457	-	-	727,457
Travel	60,864	17,378	1,767	80,009
Instructional materials	3,133	-	-	3,133
Insurance and bonding	-	89,658	-	89,658
Professional fees and dues	789,587	376,692	-	1,166,279
Transportation	211,840	-	-	211,840
Other	184,739	84,905	2,341	271,985
Total nonpayroll expenses	<u>5,416,259</u>	<u>2,973,146</u>	<u>6,884</u>	<u>8,396,289</u>
Total Expenses	<u><u>\$ 17,173,350</u></u>	<u><u>\$ 4,305,086</u></u>	<u><u>\$ 101,091</u></u>	<u><u>\$ 21,579,527</u></u>

See Notes to Financial Statements.

2019

Program Activities	Supporting Activities		
Educational Services	General and Administrative	Fundraising	Total
\$ 9,552,304	\$ 1,000,352	\$ 78,811	\$ 10,631,467
1,239,067	99,642	8,330	1,347,039
<u>10,791,371</u>	<u>1,099,994</u>	<u>87,141</u>	<u>11,978,506</u>
77,269	1,636,203	-	1,713,472
1,507,970	279,811	-	1,787,781
97,168	98,429	-	195,597
80,506	272,765	-	353,271
341,639	-	-	341,639
1,167,705	102,322	4,356	1,274,383
857,452	-	-	857,452
82,097	16,335	823	99,255
194	-	-	194
-	80,022	-	80,022
785,493	397,378	-	1,182,871
330,169	-	-	330,169
145,149	181,202	232	326,583
<u>5,472,811</u>	<u>3,064,467</u>	<u>5,411</u>	<u>8,542,689</u>
<u>\$ 16,264,182</u>	<u>\$ 4,164,461</u>	<u>\$ 92,552</u>	<u>\$ 20,521,195</u>

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EDUCATIONAL LEADERSHIP, INC.

STATEMENTS OF CASH FLOWS - EXHIBIT A-3

For the Years Ended August 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Revenue from co-curricular or enterprising	\$ 13,084	\$ 25,215
Foundation school program payments	20,625,066	17,523,429
Grant payments	4,390,790	2,849,657
Miscellaneous sources	366,901	560,938
Payments to vendors for goods and services rendered	(7,237,233)	(8,263,202)
Payments to charter school personnel for services rendered	(13,207,122)	(12,007,372)
Interest payments	(27,998)	(66,870)
Net Cash Provided by Operating Activities	4,923,488	621,795
Cash Flows from Investing Activities		
Payments for property and equipment	(65,575)	(88,565)
Net Cash (Used) by Investing Activities	(65,575)	(88,565)
Cash Flows from Financing Activities		
Issuance of debt	-	850,702
Principal payments on long-term debt	(168,349)	(988,617)
Net Cash (Used) by Financing Activities	(168,349)	(137,915)
Net Change in Cash and Cash Equivalents	4,689,564	395,315
Beginning cash and cash equivalents	1,373,379	978,064
Ending Cash and Cash Equivalents	\$ 6,062,943	\$ 1,373,379
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in net assets	\$ 1,592,586	\$ 1,528,722
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	355,470	341,639
(Increase) decrease in current assets:		
Due from other governments	970,891	(1,088,305)
Other receivables	68,855	(2,373)
Increase (decrease) in current liabilities:		
Accounts payable	56,277	(119,441)
Accrued wages payable	76,331	(19,582)
Refundable advances	1,183,982	-
Due to other governments	619,096	(18,865)
Net Cash Provided by Operating Activities	\$ 4,923,488	\$ 621,795

See Notes to Financial Statements.

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EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of Educational Leadership, Inc. (the “Charter Holder”) dba Southwest Schools (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America in conjunction with the Texas Education Agency’s (TEA) Financial Accountability System Resource Guide. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas (the “State”) in 1998 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors (the “Board”) comprised of seven members. The Board is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the Charter Holder.

Since the Charter Holder received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

In March 1998, the State Board of Education of the State granted the organization an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable contract for charter, Southwest Schools was opened. Southwest Schools was organized to provide educational services to students in kindergarten through twelfth grade and the Charter Holder’s Board of Directors governs its programs, services, activities, and functions.

Basis of Accounting and Presentation

The accompanying general purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. These net assets may be used at the discretion of the Board.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

EDUCATIONAL LEADERSHIP, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2020 and 2019

Contributions

The Charter Holder accounts for contributions as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. 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.

Cash and Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include leasehold improvements, furniture and equipment, and vehicles are reported in the general purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets or the lease period of leasehold improvements, which range from five to 30 years, using the straight-line method of depreciation. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expenses as incurred. Donations of assets are recorded as direct additions to net assets at acquisition value at the date of donation, which is then treated as cost.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Charter Holder qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

Budget

The official school budget is prepared for adoption for the general fund. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board.

NOTE 2 – CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Charter Holder maintains cash deposits with two different financial institutions, one based in Houston and the other in Lubbock, Texas. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for each account. At August 31, 2020, the Charter Holder's uninsured cash balances totaled \$937,982. At August 31, 2019, the Charter Holder's cash balances were fully insured.

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

NOTE 3 – CAPITAL ASSETS

Capital assets at August 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 3,772,994	\$ 3,756,104
Furniture and equipment	551,454	502,769
Total property and equipment	<u>4,324,448</u>	<u>4,258,873</u>
Less accumulated depreciation	(3,065,098)	(2,709,628)
Property and equipment, net	<u>\$ 1,259,350</u>	<u>\$ 1,549,245</u>

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Chapter 12 of the Texas Education Code.

Depreciation expense for 2020 and 2019 fiscal years was \$355,470 and \$341,639, respectively.

NOTE 4 – REVENUE FROM PAYCHECK PROTECTION PROGRAM PROCEEDS

On July 6, 2020 the Charter Holder received Paycheck Protection Program (“PPP”) proceeds from Plains Capital Bank (“the Lender”) in the amount of \$2,106,211. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“the CARES Act”), provided for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loan and accrued interest are forgivable after the earlier of 24 weeks or submission of the forgiveness application (“the Eligibility Period”) provided the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and provided the organization maintains its payroll levels. The amount of loan forgiveness is reduced if the borrower terminates employees or reduces salaries during the Eligibility Period. The unforgiven portion of the PPP loan, if any, is payable over two or five years at an interest rate of 1%, and payments are deferred until the Small Business Administration (“the SBA”) remits the forgiven portion to the lender.

The Charter Holder utilized the proceeds for purposes consistent with the PPP requirements for forgiveness. Consequently, on January 13, 2021, the Charter Holder submitted its application to the Lender for forgiveness of the PPP loan. The application is currently under review by the Lender and will be submitted to the SBA upon approval by the Lender. The SBA must complete its review of the application within 90 days of its receipt.

The Charter Holder has accounted for its receipt of the PPP proceeds in accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 958-605 Not-for-Profit Entities: Revenue Recognition as a conditional contribution. Consequently, the Charter Holder recorded the initial receipt of the PPP proceeds as a refundable advance on the Statement of Financial Position, and recognized the proceeds in the Statement of Activities as federal program revenues, in accordance with ASC 958-605 and guidance from the TEA, as the Charter Holder incurred costs for eligible purposes. As of August 31, 2020, management believes that the Charter Holder has fully complied with the requirements of the PPP for forgiveness of the loan. Consequently, as of August 31, 2020 the PPP proceeds in the amount of \$922,230 were realized in the Statement of Activities as federal program revenues for that portion of expenses incurred through August 31, 2020.

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

In the event the PPP loan is not forgiven, the payback schedule would be as follows:

PPP Loan

<u>Year Ended</u> <u>August 31</u>	<u>Principal</u>	<u>Estimated</u> <u>Interest</u>	<u>Total</u>
2021	\$ 412,863	\$ 19,173	\$ 432,036
2022	417,009	15,027	432,036
2023	421,200	10,836	432,036
2024	425,431	6,605	432,036
2025	429,708	2,331	432,039
Total	<u>\$ 2,106,211</u>	<u>\$ 53,972</u>	<u>\$ 2,160,183</u>

NOTE 5 – LONG-TERM DEBT

The Charter Holder obtained a commercial promissory note in November 2016 for \$650,000 from Plains Capital Bank. Interest payments began in December 2016. The balance will mature on November 30, 2021.

The Charter Holder took out a Paycheck Protection Program (PPP) loan in July 2020 for \$2,106,211 from Gulf Capital Bank in response to the COVID-19 pandemic in order to maintain their payroll costs including benefits. This loan consists of a fixed interest rate of one percent per annum. The Charter Holder intends to apply for forgiveness as available under the PPP program.

The following is a summary of changes in long-term liabilities of the Charter Holder for the year ended August 31, 2020:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>	<u>Interest</u> <u>Rates</u>
Direct borrowing:						
Note payable	\$ 523,316	\$ -	\$ (82,674)	\$ 440,642	\$ 90,419	4.50% *
Line of credit	85,675	-	(85,675)	-	-	6.50%
Total	<u>\$ 608,991</u>	<u>\$ -</u>	<u>\$ (168,349)</u>	<u>\$ 440,642</u>	<u>\$ 90,419</u>	
Long-term liabilities due in more than one year				<u>\$ 350,223</u>		

* Minimum interest rate; actual rate will vary, but will not be greater than 18%.

Future maturities on long-term debt at August 31, 2020 are as follows:

Note payable

<u>Year Ended</u> <u>August 31</u>	<u>Principal</u>	<u>Estimated</u> <u>Interest</u>	<u>Total</u>
2021	\$ 90,419	\$ 18,229	\$ 108,648
2022	350,223	3,939	354,162
Total	<u>\$ 440,642</u>	<u>\$ 22,168</u>	<u>\$ 462,810</u>

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

NOTE 6 – PENSION PLAN OBLIGATIONS

Plan Description

The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, defined benefit pension plan with one exception: all risks and costs are not shared by the Charter Holder, but are the liability of the State. Based on FASB Statement No. 87, a multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. Although TRS has no collective bargaining agreements, the defined benefit pension plan is considered to be a multiemployer plan for the purposes of a not-for-profit charter holder due to various significant factors. These factors include: 1) charter holders are legally separate entities from the State and each other; 2) assets contributed by one participating entity may be used to provide benefits to employees of other participating employers since assets contributed by one entity are not segregated in a separate account or restricted to provide benefits only to employees of that entity; 3) upon withdrawal from TRS, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to TRS; and 4) there is not a withdrawal penalty for leaving TRS.

TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publication Heading.

Funding Policy and Funded Status

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The State funding policy is as follows: (1) the State constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a State contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of TRS; (2) State statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

As of August 31, 2019, TRS' total plan assets were \$157,978,199,075, the accumulated benefit obligation (or total pension liability) was \$209,961,325,288 and TRS was 75.24% funded.

Contributions

State law provides for a member contribution rate of 7.7% for fiscal years 2020, 2019, 2018 and a State contribution rate of 7.5% for fiscal year 2020 and 6.8% for fiscal years 2019 and 2018.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2020, 2019, and 2018 were \$865,259, \$802,971, and \$759,323, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the Charter Holder for salaries above the statutory minimum for the years ending August 31, 2020, 2019, and 2018 were \$229,986, \$38,371, and \$37,050,

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

respectively, equal to the required contributions for each year. These contributions did not represent more than 5% of the total contributions to TRS.

In addition to the Charter Holder's contributions given above, when employing a new member to TRS, the Charter Holder is required to pay the State contribution for the new members in their first 90 days of employment. The Charter Holder's contributions for new members for fiscal years ending August 31, 2020, 2019, and 2018 were \$23,007, \$12,607 and \$23,525, respectively.

In addition, when employing a retiree of TRS, the Charter Holder is required to pay both the employee contribution and the State contribution as an employment after retirement surcharge. The Charter Holder's contributions for pension surcharge for fiscal years ending August 31, 2020, 2019, and 2018 were \$11,302, \$15,185, and \$14,136, respectively.

Effective for fiscal year 2015, the Charter Holder made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amounts contributed for Non-OASDI for fiscal years ending August 31, 2020, 2019, and 2018 were \$168,611, \$156,424, and \$146,939, respectively.

NOTE 7 – RETIREE HEALTH CARE PLAN

Plan Description

The Charter Holder contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish State, active employee, and public school contributions, respectively. The State and active public school employee contribution rates were 1.25% for fiscal years ending August 31, 2020 and 2019 and 1.00% for fiscal year 2018 and 0.65% of school payroll. The Charter Holder is contributing a percentage of payroll set at 0.75% for fiscal years ending August 31, 2020, 2019, and 2018. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2020, 2019, and 2018, the State's contributions to TRS-Care were \$7,619, \$7,054, and \$6,924, respectively; the active member contributions were \$73,052, \$67,783, and \$64,086, respectively; and the Charter Holder's contributions were \$83,970, \$78,213, and \$73,947, respectively; which equaled the required contributions each year.

NOTE 8 – HEALTH CARE COVERAGE

During the year ended August 31, 2020, employees of the Charter Holder were covered by the Humana insurance plan (the "Plan") for health insurance benefits. The Charter Holder paid premiums ranging from \$464 to \$619 per month per employee to the Plan, which meets the minimum requirement of \$225. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

NOTE 9 – WORKERS’ COMPENSATION INSURANCE

During the year ended August 31, 2020, employees of the Charter Holder were covered by a workers’ compensation plan (the “Plan”). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

In September 2019, the Charter Holder entered into a contract with Texas Mutual Insurance Company for workers’ compensation and employers’ liability policy. The policy period begins on October 1, 2019 and ends on October 1, 2020.

NOTE 10 – DUE FROM STATE

As of August 31, 2020 and 2019, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	<u>2020</u>	<u>2019</u>
State Foundation Program	\$ 186	\$ 1,654,430
Title II, Part A, Supporting Effective Instruction	639	638
Title I, Part A, Improving Basic Programs	17,259	-
Title I, Part D, Delinquent Programs	77	-
Title III, Part A, ELA	25,949	17,762
21st Century Learning Centers	206,620	-
Elementary and Secondary School Emergency Relief	307,837	-
Instructional Continuity	6,000	-
Textbook and Kindergarten Materials	137,372	-
Totals	<u>\$ 701,939</u>	<u>\$ 1,672,830</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Charter Holder 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 the 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 Charter Holder have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or the grantor agency.

The last three years of informational tax returns, 2019, 2018, and 2017, filed with the IRS remain subject to examination.

NOTE 12 – OPERATING LEASES

The Charter Holder renewed its commercial lease agreement with Corfus, LLC on June 1, 2016 which extends through May 31, 2021. The monthly rental payment is \$11,638. This property is located at 3333 Bering Drive, Houston, Texas and is the location for the administration office.

The Charter Holder entered into a lease with Mangum Educational Center, L.P. on February 10, 2010 which commenced on September 1, 2010 and extends through August 31, 2031. The lease is for the property at 4515 Mangum Road, Houston, Texas. This is the location of one of the two elementary campuses operated by the Charter Holder. For the 2020 fiscal year, the monthly rent payment was \$24,800. Additionally, the Charter Holder pays \$3,835 monthly, which is the Charter Holder’s share of maintenance costs, real estate taxes, and insurance premiums.

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

The Charter Holder entered into a lease with SWCC Westpark, L.P. on February 8, 2010 which commenced on August 1, 2012 and extends through November 31, 2027. The lease is for the property at 6400 Westpark, Houston, Texas, and is the location for the high school and middle school campuses. For the 2020 fiscal year, the monthly rent payment was \$44,185. Additionally, the Charter Holder pays \$4,604 monthly, which is the Charter Holder's share of maintenance costs, real estate taxes, and insurance premiums.

Lease commitments will be as follows for the remaining years of the leases:

Year Ended	SWCC			
August 31	Corfus, LLC	Mangum	Westpark	Total
2021	\$ 104,738	\$ 305,270	\$ 535,871	\$ 945,879
2022	-	305,270	535,871	841,141
2023	-	305,370	535,871	841,241
2024	-	305,270	535,871	841,141
2025	-	305,270	535,871	841,141
2026-2030	-	1,564,700	1,205,708	2,770,408
	<u>\$ 104,738</u>	<u>\$ 3,091,150</u>	<u>\$ 3,885,063</u>	<u>\$ 7,080,951</u>

NOTE 13 – STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period. At the close of the year, actual attendance is calculated by the TEA and the attendance reports are subject to audit by the TEA. Final State foundation program earnings may be adjusted as a result of any such audit. During the period ended August 31, 2020, the Charter Holder was paid \$18,564,579 of State foundation program funds of which all was earned (before any possible TEA enrollment and attendance audit).

During the years ended August 31, 2020 and 2019, the Charter Holder had zero days and 12 days of instruction related to the 2019-2020 and 2018-2019 school years, respectively. Based on the estimated State foundation program revenue for 2019-2020 and 2018-2019 as provided by the TEA, \$0 and \$1,410,703, was earned for these days of instruction. This revenue has been accrued at August 31, 2020 and 2019 and will be received after September 1, 2020 and 2019, respectively.

NOTE 14 – NET ASSETS WITH DONOR RESTRICTIONS

At August 31, 2020 and 2019, the Charter Holder's net assets with donor restrictions consisted of the following:

	2020	2019
Unexpended State Program Revenue	<u>\$ 3,147,390</u>	<u>\$ 1,248,764</u>
Total	<u><u>\$ 3,147,390</u></u>	<u><u>\$ 1,248,764</u></u>

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

NOTE 15 – RECLASSIFICATION OF BEGINNING NET ASSETS

Beginning net assets have been reclassified to report an amount with donor restrictions for unexpended state program revenue.

	Without Donor Restrictions Net Assets	With Donor Restrictions Net Assets	Total
Beginning net assets - as reported	\$ 3,625,165	\$ -	\$ 3,625,165
Reclassification of net assets	(1,248,764)	1,248,764	-
Beginning net assets - restated	\$ 2,376,401	\$ 1,248,764	\$ 3,625,165

NOTE 16 – LIQUIDITY AND AVAILABILITY

The following represents the Charter Holder’s financial assets available for general expenditure within one year of August 31, 2020 and 2019:

	Fiscal Year	
	2020	2019
Cash and cash equivalents	\$ 6,062,943	\$ 1,373,379
Due from other governments	701,939	1,672,830
Other receivables	-	68,855
Other deposits	23,749	23,749
Total Financial Assets	6,788,631	3,138,813
Less amounts not available to be used within one year:		
Net assets with donor restrictions	-	-
Financial Assets Available to Meet General Expenditures Within One Year	\$ 6,788,631	\$ 3,138,813

NOTE 17 – CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school, Southwest Schools, and does not conduct any other charter or noncharter activities.

NOTE 18 – COVID-19

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay-at-home orders going into effect. The Charter suspended in-classroom learning for the remainder of the school year. While the initial event occurred prior to year-end, the Charter was, subsequent to year end, continuing to modify its operations to prevent the spread to protect students, staff, and the community as a whole, while balancing the educational needs of students. In July 2020, the Charter resumed its 2020-2021 school year, starting on the regularly scheduled date with virtual learning. On September 8, a small group of students returned to the Charter School for on-campus learning until the Charter’s fall break began on September 21. The Charter’s Board approved a revision to the school’s usual two-week fall break, allowing the break to take place for three weeks through Monday, October 12. The Board also approved recalculating minutes to the school day after the fall break so that no additional adjustments would need to be made to the school calendar. The Charter provided parents and guardians the option for virtual learning or in-classroom learning for a nine-week grading period beginning Tuesday, October 13. Approximately 67.41% of students elected virtual learning. The Charter has made numerous changes to its operations, including provisions for students and staff to wear masks, more frequent cleanings, and numerous other changes. While such changes cause a significant hardship and have increased expenses, such increases are nominal in

EDUCATIONAL LEADERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2020 and 2019

comparison to the overall budget. The Charter is continuing to monitor exposure levels with students, staff and the community as a whole, but to date the overall exposure threat level has been sufficiently low to continue with in class learning, but the Charter is ready to modify its plans if necessary.

NOTE 19 – SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through January 18, 2021.

SUPPLEMENTARY INFORMATION

EDUCATIONAL LEADERSHIP, INC.
SUPPLEMENTAL STATEMENTS OF ACTIVITIES - EXHIBIT B-1
For the Years Ended August 31, 2020 and 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions
Revenues				
Local support:				
5740	\$ 366,901	\$ -	\$ 366,901	\$ 560,938
5750	13,084	-	13,084	25,215
	<u>379,985</u>	<u>-</u>	<u>379,985</u>	<u>586,153</u>
State program revenues:				
5810	-	18,564,579	18,564,579	-
5820	-	474,760	474,760	-
	<u>-</u>	<u>19,039,339</u>	<u>19,039,339</u>	<u>-</u>
Federal program revenues:				
5910	-	207,830	207,830	-
5920	-	2,592,589	2,592,589	-
5940	-	952,370	952,370	-
	<u>-</u>	<u>3,752,789</u>	<u>3,752,789</u>	<u>-</u>
Net assets released from restrictions:				
	20,893,502	(20,893,502)	-	20,215,000
	<u>21,273,487</u>	<u>1,898,626</u>	<u>23,172,113</u>	<u>20,801,153</u>
	Total Revenues			
Expenses				
11	12,152,046	-	12,152,046	10,837,207
13	277,932	-	277,932	396,178
21	189,744	-	189,744	127,147
23	1,897,113	-	1,897,113	1,857,660
31	623,779	-	623,779	751,394
32	33,499	-	33,499	-
33	14,584	-	14,584	7,961
34	203,940	-	203,940	307,889
35	727,457	-	727,457	857,452
36	11,231	-	11,231	19,905
41	1,689,011	-	1,689,011	1,759,683
51	2,596,868	-	2,596,868	2,397,004
52	133,932	-	133,932	161,329
53	899,302	-	899,302	880,964
71	27,998	-	27,998	66,870
81	101,091	-	101,091	92,552
	<u>21,579,527</u>	<u>-</u>	<u>21,579,527</u>	<u>20,521,195</u>
	Total Expenses			
	Change in Net Assets	1,898,626	1,592,586	279,958
Beginning net assets	2,376,401	1,248,764	3,625,165	2,096,443
	<u>\$ 2,070,361</u>	<u>\$ 3,147,390</u>	<u>\$ 5,217,751</u>	<u>\$ 2,376,401</u>
	Ending Net Assets			

See Notes to Financial Statements.

2019

With Donor Restrictions	Total
\$ -	\$ 560,938
-	25,215
-	586,153
18,641,613	18,641,613
47,268	47,268
<u>18,688,881</u>	<u>18,688,881</u>
264,000	264,000
2,467,218	2,467,218
43,665	43,665
<u>2,774,883</u>	<u>2,774,883</u>
(20,215,000)	-
<u>1,248,764</u>	<u>22,049,917</u>
-	10,837,207
-	396,178
-	127,147
-	1,857,660
-	751,394
-	-
-	7,961
-	307,889
-	857,452
-	19,905
-	1,759,683
-	2,397,004
-	161,329
-	880,964
-	66,870
-	92,552
-	<u>20,521,195</u>
1,248,764	1,528,722
-	2,096,443
<u>\$ 1,248,764</u>	<u>\$ 3,625,165</u>

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EDUCATIONAL LEADERSHIP, INC.

SCHEDULES OF EXPENSES - EXHIBIT C-1

For the Years Ended August 31, 2020 and 2019

		Totals	
		2020	2019
Expenses			
6100	Payroll costs	\$ 13,207,122	\$ 12,007,372
6200	Professional and contracted services	5,276,049	6,097,451
6300	Supplies and materials	2,202,440	1,313,786
6400	Other operating costs	865,918	1,035,716
6500	Debt service	27,998	66,870
	Total Expenses	\$ 21,579,527	\$ 20,521,195

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EDUCATIONAL LEADERSHIP, INC.

SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1

August 31, 2020

		Ownership Interest		
		Local	State	Federal
1520	Leasehold improvements	\$ -	\$ 3,772,994	\$ -
1539	Furniture and equipment	-	551,454	-
Total Property and Equipment		\$ -	\$ 4,324,448	\$ -

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EDUCATIONAL LEADERSHIP, INC.
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND - EXHIBIT E-1
For the Year Ended August 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 269,976	\$ 269,976	\$ 1,421	\$ (268,555)
Total local support	<u>269,976</u>	<u>269,976</u>	<u>1,421</u>	<u>(268,555)</u>
State program revenues:				
5810 Foundation school program revenues	17,515,795	19,978,195	18,564,579	(1,413,616)
Federal program revenues:				
5940 Federal revenues distributed directly from the federal government	270,050	-	952,370	952,370
Total state and federal program revenues	<u>17,785,845</u>	<u>19,978,195</u>	<u>19,516,949</u>	<u>(461,246)</u>
Total Revenues	<u>18,055,821</u>	<u>20,248,171</u>	<u>19,518,370</u>	<u>(729,801)</u>
Expenses				
11 Instruction	9,180,063	9,180,063	9,226,473	(46,410)
13 Curriculum development and instructional staff development	293,250	293,250	277,932	15,318
21 Instructional leadership	79,022	190,025	189,744	281
23 School leadership	1,992,879	1,992,879	1,810,963	181,916
31 Guidance, counseling, and evaluation services	205,367	295,500	290,008	5,492
32 Social work services	-	-	33,499	(33,499) *
33 Health services	20,649	20,649	14,584	6,065
34 Student (pupil) transportation	305,403	205,000	203,300	1,700
41 General administration	1,795,107	1,795,107	1,678,434	116,673
51 Plant maintenance and operations	2,416,081	2,616,081	2,596,868	19,213
52 Security and monitoring services	171,864	151,000	133,932	17,068
53 Data processing services	552,123	952,123	899,302	52,821
71 Debt service	120,516	40,000	27,998	12,002
81 Fundraising	102,322	102,322	101,091	1,231
Total Expenses	<u>17,234,646</u>	<u>17,833,999</u>	<u>17,484,128</u>	<u>349,871</u>
Change in Net Assets	<u>\$ 821,175</u>	<u>\$ 2,414,172</u>	<u>2,034,242</u>	<u>\$ (379,930)</u>
Reconciliation to Ending Net Assets				
Change in net assets due to activity in other funds			(16,145)	
Depreciation			(355,470)	
Other uses			(70,041)	
			<u>1,592,586</u>	
Change in Net Assets (all funds)				
Beginning net assets			<u>3,625,165</u>	
			<u>\$ 5,217,751</u>	
Ending Net Assets				

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenses exceeded appropriations by more than ten percent.

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***COMPLIANCE,
INTERNAL CONTROLS,
AND
FEDERAL AWARDS***

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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

January 18, 2021

To the Board of Directors of
Educational Leadership, Inc.:

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 Educational Leadership, Inc. (the "Charter Holder") dba Southwest Schools (a nonprofit organization), which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter Holder's internal control over financial reporting (internal control) as a basis of 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 Charter Holder's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Charter Holder's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Holder's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Holder'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 Charter Holder's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

January 18, 2021

To the Board of Directors of
Educational Leadership, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Educational Leadership, Inc.'s (the "Charter Holder") dba Southwest Schools (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Charter Holder's major federal programs for the year ended August 31, 2020. The Charter Holder's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Charter Holder's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Charter Holder's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Charter Holder's compliance.

Opinion on Each Major Federal Program

In our opinion, the Charter Holder complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

Report on Internal Control Over Compliance

Management of the Charter Holder is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter Holder's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

EDUCATIONAL LEADERSHIP, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1
For the Year Ended August 31, 2020

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued	Unmodified
Internal control over financial reporting:	
One or more material weakness(es) identified?	No
One or more significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
One or more material weakness(es) identified?	No
One or more significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of audit report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Program Title</u>
84.027 and 84.173	Special Education Cluster (IDEA)
84.425D	Elementary and Secondary School Emergency Relief

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

II. FINANCIAL STATEMENT FINDINGS

None identified.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None identified.

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EDUCATIONAL LEADERSHIP, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT G-1

For the Year Ended August 31, 2020

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management Explanation If Not Implemented</u>
None		

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EDUCATIONAL LEADERSHIP, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT H-1
For the Year Ended August 31, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Texas Education Agency:</i>			
ESEA, Title I, Part A, Improving Basic Programs*	84.010	20610101101838	\$ 837,233
ESEA, Title I, Part D, Subpart 2, Delinquent Programs*	84.010	20610103101838	104,463
ESEA, Title I, Part C - Migrant	84.011	20615001101838	574
Special Education Cluster:			
IDEA-B Formula*	84.027	206600011018386000	320,626
IDEA-B Preschool*	84.173	206610011018386000	13,145
Title II, Part A, Supporting Effective Instruction	84.367	20694501101838	81,460
Title III, Part A	84.365	20671001101838	122,182
Summer School LEP	84.369	69551802	5,343
Title IV, Part A Subpart 1	84.424	20680101101838	46,414
Elementary and Secondary School Emergency Relief	84.425D	20521001101838	411,157
Instructional Continuity	84.377	17610740101838	10,496
<i>Passed Through Harris County Department of Education:</i>			
21st Century Community Learning Centers	84.287	206950267110022	207,830
Total U.S. Department of Education			2,160,923
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster:			
School Breakfast Program*	10.553	806780706	125,725
National School Lunch Program*	10.555	806780706	467,542
<i>Direct Award</i>			
USDA Commodities	10.565	806780706	46,229
Total U.S. Department of Agriculture			639,496
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,800,419
Federal revenue per SEFA			\$ 2,800,419
Revenue from PPP proceeds			922,230
Universal E-Rate			30,140
A-2 Federal Revenue			\$ 3,752,789

* Indicates clustered program under OMB Compliance Supplement
The accompanying notes are an integral part of this schedule.

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EDUCATIONAL LEADERSHIP, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2020

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Charter Holder. The information in the SEFA is presented in accordance with the 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). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credit made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

The Charter Holder has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During the emergency period of COVID-19, federal agencies and recipients of federal assistance funds donated personal protective equipment (PPE) to non-federal entities. In connection with that donation, the recipient must disclose the estimated value of the donated PPE, but such amounts are not included in the SEFA. The Charter Holder did not receive PPE donations during the reporting year.

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