

Lionheart Children's Academy

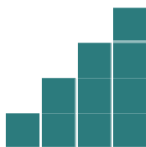
Financial Statements

Year Ended December 31, 2022

(With summarized information for the year ended December 31, 2021)

Lionheart Children's Academy
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Independent Auditor's Report

To the Board of Directors
of Lionheart Children's Academy

Opinion

We have audited the accompanying financial statements of Lionheart Children's Academy (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lionheart Children's Academy as of December 31, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lionheart Children's Academy and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Lionheart Children's Academy adopted FASB Accounting Standards Update 2016-02, Leases (Topic 842) effective January 1, 2022, using the modified retrospective approach which does not require prior periods to be restated. 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 accounting principles generally accepted in the United States of America, 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 Lionheart Children's Academy's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 generally accepted 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, including omissions, 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.

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In performing an audit in accordance with generally accepted 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 Lionheart Children's Academy'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 Lionheart Children's Academy's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Lionheart Children's Academy's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 17, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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Irving, Texas
March 9, 2023

Lionheart Children's Academy
Statement of Financial Position
December 31, 2022

(With summarized information for the year ended December 31, 2021)

	Assets	
	2022	2021
Current Assets		
Cash and cash equivalents	\$ 5,993,970	\$ 6,403,087
Tuition and fees receivable, net	128,458	18,865
Employee advances	29,248	4,170
Prepaid expenses	217,580	117,510
Total Current Assets	6,369,256	6,543,632
Investments	2,413,425	-
Property and Equipment (Bus Fleet), Net	527,046	254,208
Advanced Rent	3,568,793	3,873,812
Operating Lease Right-of-Use Asset	87,058	-
	\$ 12,965,578	\$ 10,671,652
	Liabilities and Net Assets	
Current Liabilities		
Accounts payable	\$ 87,688	\$ 160,435
Related party payable	308	7,280
Accrued payroll expenses	544,198	264,079
Accrued expense	560,271	360,976
Interest payable	14,228	6,310
Current portion of long-term debt	547,355	359,250
Current portion of operating lease liability	23,606	-
Total Current Liabilities	1,777,654	1,158,330
Debt, Net of Current Portion and Deferred Loan Costs	5,360,762	5,581,046
Operating Lease Liability, Net of Current Portion	64,830	-
	7,203,246	6,739,376
Net Assets (Deficit)		
Without donor restrictions	5,468,619	3,660,549
With donor restrictions	293,713	271,727
	5,762,332	3,932,276
	\$ 12,965,578	\$ 10,671,652

See accompanying notes to financial statements.

Lionheart Children's Academy
Statement of Activities
Year Ended December 31, 2022

(With summarized information for the year ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022	2021
Revenue and Support				
Contributions	\$ 207,229	\$ 309,739	\$ 516,968	\$ 1,208,329
Grants	5,631,680		5,631,680	\$ 2,778,138
Donated goods	1,803,971	-	1,803,971	1,539,040
Tuition and related fees, net	16,055,916	-	16,055,916	10,177,915
Interest income	86,876	-	86,876	25,472
Other income	125,209	-	125,209	1,380,794
Net assets released from restrictions	287,753	(287,753)	-	-
	<u>24,198,634</u>	<u>21,986</u>	<u>24,220,620</u>	<u>17,109,688</u>
Expenses				
Program services	20,200,443	-	20,200,443	14,188,498
General and administrative	2,125,306	-	2,125,306	1,352,920
Fundraising	64,815	-	64,815	12,387
	<u>22,390,564</u>	<u>-</u>	<u>22,390,564</u>	<u>15,553,805</u>
Increase (Decrease) in Net Assets	<u>1,808,070</u>	<u>21,986</u>	<u>1,830,056</u>	<u>1,555,883</u>
Net Assets (Deficit) at Beginning of Year	3,660,549	271,727	3,932,276	2,376,393
Net Assets (Deficit) at End of Year	<u>\$ 5,468,619</u>	<u>\$ 293,713</u>	<u>\$ 5,762,332</u>	<u>\$ 3,932,276</u>

See accompanying notes to financial statements.

Lionheart Children's Academy
Statement of Functional Expenses
Year Ended December 31, 2022

(With summarized information for the year ended December 31, 2021)

	Program Services	Management and General	Fund - raising	2022	2021
Academy & National Office Wages & Benefits	\$ 4,643,640	\$ 1,290,418	\$ -	\$ 5,934,058	\$ 4,284,027
Teaching staff wages and benefits	9,051,338	-	-	9,051,338	4,885,171
	<u>13,694,978</u>	<u>1,290,418</u>	<u>-</u>	<u>14,985,396</u>	<u>9,169,198</u>
Advertising and lead generation	740,126	22,392	-	762,518	500,925
Pre-launch expense to setup academies	333,205	-	-	333,205	1,091,534
Professional fees/consulting	72,449	107,463	-	179,912	212,560
Occupancy expense	575,617	-	-	575,617	419,482
Student food expense	747,979	-	-	747,979	355,996
Classroom and fieldtrips expense	320,819	-	-	320,819	202,047
Merchant fees/processing fees	176,913	75,820	-	252,733	170,892
Staffing recruiting and support	472,873	128,111	-	600,984	199,685
Academy space	1,513,548	-	-	1,513,548	2,167,532
IT consulting and general expense	288,751	85,112	-	373,863	294,540
Office equipment, supplies, and production	59,615	23,401	-	83,016	101,487
Other expense	218,223	152,625	-	370,848	133,773
Interest expense	595	239,964	-	240,559	180,815
Buses expense	104,412	-	-	104,412	84,742
Bad debt expense	503,196	-	-	503,196	20,367
Fundraising expense	-	-	64,815	64,815	12,387
Scholarships for students	211,410	-	-	211,410	74,350
	<u>20,034,709</u>	<u>2,125,306</u>	<u>64,815</u>	<u>22,224,830</u>	<u>15,392,312</u>
Depreciation	165,734	-	-	165,734	161,493
	<u>\$ 20,200,443</u>	<u>\$ 2,125,306</u>	<u>\$ 64,815</u>	<u>\$ 22,390,564</u>	<u>\$ 15,553,805</u>

See accompanying notes to financial statements.

Lionheart Children's Academy
Statement of Cash Flows
Year Ended December 31, 2022

(With summarized information for the year ended December 31, 2021)

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 1,830,056	\$ 1,555,883
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	165,734	161,493
Amortization of right-of-use asset, net	1,378	-
Impairment of advanced rent	485,863	-
Non-cash debt forgiveness	-	(400,000)
Paycheck Protection Program loan forgiveness	-	(1,436,900)
Non-cash interest expense (deferred loan costs and accrued interest)	14,066	97,705
(Increase) decrease in assets:		
Tuition and fees receivables	(109,593)	26,245
Other receivables	(25,078)	2,677
Prepaid expenses	(100,070)	(74,770)
Advanced rent	(180,844)	309,877
(Increase) decrease in liabilities:		
Accounts payable	(72,744)	126,317
Related party payable	(6,974)	180,712
Accrued payroll expenses	280,119	(9,106)
Accrued expense	199,295	119,320
Interest payable	7,918	(21,292)
Deferred revenue	-	4,236
Net Cash Provided By (used in) Operating Activities	2,489,126	642,397
Cash Flows from Investing Activities		
Purchase of certificate of deposit	(2,388,057)	-
Purchase of buses	(438,572)	(84,487)
Net Cash Provided (used) by Investing Activities	(2,826,629)	(84,487)
Cash Flows from Financing Activities		
Proceeds from borrowings	350,000	1,476,900
Payments on long-term debt	(396,246)	(90,572)
Net Cash Provided (used) by Financing Activities	(46,246)	1,386,328
Net Increase (Decrease) in Cash	(383,749)	1,944,238
Cash and Cash Equivalents, Beginning of Year	6,403,087	4,458,849
Cash and Cash Equivalents, End of Year	<u>\$ 6,019,338</u>	<u>\$ 6,403,087</u>
Summary of cash and cash equivalents		
Cash and cash equivalents	\$ 5,993,970	\$ 6,403,087
Cash and money market funds included in investments	25,368	-
	<u>\$ 6,019,338</u>	<u>\$ 6,403,087</u>
Supplemental Information		
Cash paid during the year for interest	\$ 232,641	\$ 202,107
Non-cash financing activity		
Paycheck Protection Program loan forgiveness	\$ -	\$ 1,436,900
Non-cash contribution via debt forgiveness	\$ -	\$ 400,000

See accompanying notes to financial statements.

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of the Organization

Lionheart Children's Academy (the "Academy" or "Lionheart") is a Texas non-profit organization incorporated in November 2013; it began operations in January 2014. Lionheart partners with churches to operate quality, Christ-centered licensed preschool and after school programs year round. Lionheart operated 14 and 11 academies in Texas, Ohio, and Colorado as of December 31, 2022 and 2021, respectively.

Basis of Presentation

Based on the existence or absence of donor-imposed restrictions, resources are classified into two categories: without donor restrictions and with donor restrictions. Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by the donor are included in this classification. All expenses are reported as decreases in net assets without donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that will be met either by actions of Lionheart or the passage of time. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), 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 purposes of the statement of cash flows, cash and cash equivalents includes all checking and saving accounts, and highly liquid money market mutual funds. These funds are available for general operating purposes and not otherwise restricted.

Advanced Rent

For each academy, Lionheart provides certain start-up funding in accordance with the covenant agreement between Lionheart and the host church. The start-up funding amounts represent advanced rent for future years. As such, start-up funding amounts are capitalized as advanced rent and reported as a noncurrent asset. Management evaluates for impairment based on assessment of future realizable rent. Management recorded an impairment loss of \$485,863 and \$0 for the years ended December 31, 2022 and 2021, respectively, which is included in bad debt expense on the statement of functional expenses.

Investments

Investments consist primarily of certificates of deposits and are classified as held to maturity. The Company has the positive intent and ability to hold investments to maturity. For the years ended December 31, 2022 and 2021, there are no unrealized gains or losses, as cost approximates fair market value due to the nature of investments.

Property and Equipment

Property and equipment are carried at acquisition cost. Depreciation is provided using straight-line method over the estimated useful lives of the respective assets. For buses, estimated useful lives are five years. Major additions and betterments are capitalized, while replacements and maintenance and repairs which do not improve or extend the life of the related assets are expensed.

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

Revenue Recognition

Under Accounting Standards Codification (ASC) Topic 606, revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the Academy expects to be entitled in exchange for those goods or services (i.e., the transaction price).

Lionheart recognizes student revenue as the educational services are provided. Tuition and fees are stated net of concession and discounts totaling \$1,206,966 and \$996,551 for the years ended December 31, 2022 and 2021, respectively. Advance billing is recorded as deferred revenue until the performance obligations are met.

Other remaining revenue streams not related to tuition including contributions, grants, investment income, and other revenue are not within the scope of Topic 606 Revenue Recognition. The adoption of this standard did not materially affect changes in net assets, financial position, or cash flows.

Contributions are recognized as revenues when received. Contributions are available for unrestricted use unless specifically restricted by the donor. Grants are considered to be conditional contributions and are recognized as revenues as qualifying expenses are incurred under the agreement. Amounts received that are designated for future periods or restricted by the donor are reported as restricted support and increase net assets with donor restrictions. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

Investment income is reported as increases or decreases in net asset without donor restriction, unless their use is restricted by explicit donor stipulation or law.

Functional Allocation of Expenses

Expenses have been summarized on a functional basis and allocated in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on analysis of personnel time and space and resources utilized for the related activities.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expense totaled \$762,518 and \$500,925 for the years ended December 31, 2022 and 2021, respectively.

Deferred Loan Cost

Deferred loan costs are reported on the balance sheet as a direct deduction from the face amount of debt. These costs are amortized to interest expense over the terms of the related loans using the straight-line method. Amortization expense recorded to interest was \$14,066 and \$14,066 for the years ended December 31, 2022 and 2021, respectively.

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

Income Taxes

Lionheart is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Lionheart is not classified as a private foundation and is exempt for state income tax purposes. Currently, Lionheart engages in no activities that would be taxed as unrelated business income.

With respect to uncertain tax positions, the management of Lionheart believes its positions comply with applicable laws and they periodically evaluate exposures associated with tax filing positions. Consequently, no liability is recognized in the accompanying statement of financial position for uncertain tax positions. If incurred, penalties and interest assessed by income taxing authorities are included in penalties or interest expense. With few exceptions, Lionheart is no longer subject to U.S. federal and state examinations by taxing authorities for years before 2019.

Use of Estimates

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. Significant estimates used in preparing these financial statements include those assumed in advanced rent and debt maturities for contingent payment loans and distributions related to certain debt agreements. It is at least reasonably possible that the significant estimates used will change within the next year. Accordingly, the actual results could differ from those estimates.

Accrued Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. Lionheart's policy is to recognize these costs when actually paid.

Leases

Lionheart assesses whether an arrangement qualifies as a lease based on if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lionheart assesses at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Lionheart's leases, consisting entirely of operating leases, are recorded on the balance sheet as operating lease right-of-use assets and liabilities. Only lease options that Lionheart believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. Operating lease liabilities are initially recognized based on the net present value of the lease payments through the lease term. To calculate the net present value, Lionheart has elected to use the risk-free rate of interest. Right-of-use assets are recognized based on operating lease liabilities. Under the operating lease model, lease payments are expensed on a straight-line basis over the lease term.

Lionheart has elected to apply the short-term lease exemption to all leases with an initial term of 12 months or less. Leases with an initial term of 12 months or less are not recorded on the balance sheet and lease expense is recognized in the statement of operations for these leases on a straight-line basis over the lease term.

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 1 - Organization and Summary of Significant Accounting Policies, Continued

Liquidity and Availability of Financial Assets

Lionheart has \$6,177,044 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash and cash equivalents \$6,019,338, tuition and fee receivables of \$128,458, and employee advances of \$29,248.

Change in Accounting Principle

The Company adopted FASB Accounting Standards Update 2016-02, Leases ('ASC 842') and certain practical expedients effective January 1, 2022 using the modified retrospective approach. As a result, comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASC 842 resulted in the recognition of an operating lease liability of \$88,436 and an operating lease right-of-use asset of \$87,058 as of December 31, 2022. There was no significant impact on beginning net assets, change in net assets, or the cash flows as a result of applying ASC 842.

Comparative Data

The amounts shown for the year ended December 31, 2021 in the accompanying financial statements are included to provide a basis for comparison with 2022 and present summarized totals only. Accordingly, the 2021 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Note 2 - Tuition and Fees Receivable

Tuition and fees receivable consists primarily of open invoices related to tuition and fees. Tuition and fees receivable is reported net of an allowance for doubtful accounts of \$0, at December 31, 2022 and 2021. Lionheart establishes an allowance for doubtful accounts based on management's assessment of the collectability of past due accounts. Past due accounts are defined by invoice due date. Tuition and fees receivable balances are charged off after being deemed uncollectable by management. Lionheart generally requires that the invoices are paid prior to services being rendered. As such, Lionheart generally does not require collateral from the families of children served.

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 3 - Investments

At December 31, 2022 and 2021, investments are classified as held to maturity and are recorded at amortized cost. The Company has the positive intent and ability to hold investments to maturity. Investments consist of the following as of December 31, 2022 and 2021:

	2022	2021
Cash and money market funds	\$ 25,368	\$ -
Certificates of deposit	2,388,057	-
	\$ 2,413,425	\$ -

At December 31, 2022, there are no unrealized gains or losses, as cost approximates fair market value due to the nature of investments.

Certificates of deposits have original maturities ranging from 18 to 24 months. Expected maturities are as follows at December 31, 2022:

Within one year	\$ -
One to five years	2,388,057
Five to 10 years	-
After 10 years	-
	\$ 2,388,057

Note 4 - Property and Equipment

Property and equipment consists of the following at December 31:

	2022	2021
Buses	\$ 1,586,743	1,148,172
Less: accumulated depreciation	(1,059,697)	(893,964)
	\$ 527,046	\$ 254,208

Depreciation expense for the years ended December 31, 2022 and 2021 were \$165,734 and \$161,493, respectively. Buses with a carrying value of \$0 and \$24,763 represent collateral for financing agreements for the years ended December 31, 2022 and 2021 respectively (see Note 5).

Note 5 - Long-Term Debt

Long-term debt is used for purposes of buying buses and launching new academies. The debt is unsecured except for the bus loans. Long-term debt consists of the following at December 31:

	2022	2021
Note payable, interest at 6.00%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of December 31, 2024. The note is unsecured.	\$ 200,000	\$ 200,000
Note payable, payable in monthly installments of \$919.14, interest at 6.43%, final payment due April 30, 2022, secured via bus.	-	3,628
Note payable, payable in monthly installments of \$913.86, interest at 6.48%, final payment due June 30, 2022, secured via bus.	-	5,452

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 5 - Long-Term Debt, Continued

Note payable, payable in monthly installments of \$913.86, interest at 6.48%, final payment due June 30, 2022, secured via bus.	-	5,452
Note payable, payable in monthly installments of \$829.77, interest at 6.48%, final payment due August 14, 2022, secured via bus.	-	6,577
Note payable, payable in monthly installments of \$823.96, interest at 6.48%, final payment due August 14, 2022, secured via bus.	-	7,219
Loan, stated interest at 0%, contingent payments based on cash flows, no stated maturity, estimated final payment due December 31, 2023, and commitment to 12.5% of program net cash flows. The note is unsecured.	-	125,556
Note payable to related party, interest at 6.00%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of April 23, 2025. The note is unsecured. See Note 11.	190,000	190,000
Loan, stated interest at 0%, contingent payments based on cash flows, no stated maturity, estimated final payment due December 31, 2026, and commitment to 12.5% of program net cash flows. The note is unsecured.	-	250,000
Loan, stated interest at 0%, contingent payments based on cash flows, no stated maturity, estimated final payment due December 31, 2026, and commitment to 6.25% of program net cash flows. The note is unsecured.	-	150,000
Loan, stated interest at 0%, contingent payments based on cash flows, no stated maturity, estimated final payment due December 31, 2026, and commitment to 12.5% of program net cash flows. The note is unsecured.	-	270,000
Loan, stated interest at 0%, contingent payments based on cash flows, no stated maturity, estimated final payment due March 31, 2026. The loan is unsecured.	329,990	329,990
Loan, stated interest at 0%, contingent payments based on cash flows, no stated maturity, estimated final payment due December 31, 2026. The loan is unsecured.	183,947	326,308
Note payable, interest at 5.00%, with principal balance and unpaid interest due on or before December 31, 2022. The note is unsecured.	-	100,000
Note payable, interest at 3.00%, with principal balance and unpaid interest due on or before December 31, 2024. The note is unsecured.	250,000	250,000
Note payable, stated interest at 6%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of September 23, 2024. The note is unsecured.	250,000	250,000

Lionheart Children's Academy
Notes to Financial Statements
December 31, 2022

(With summarized information for the year ended December 31, 2021)

Note 5 - Long-Term Debt, Continued

Note payable, stated interest at Libor + 3%, payable in annual installments starting November 6, 2023 at 15% of balance, with principal balance and unpaid interest due on or before November 6, 2025, net of deferred loan cost of \$39,852 and \$53,918 at December 31, 2022 and 2021, respectively. The note is unsecured.	3,199,180	3,185,114
Small Business Administration loan, stated interest at 2.75%, payable in monthly installments of \$2,157 beginning December 1, 2022, with principal balance and unpaid interest due on or before July 1, 2050. Secured via tangible and intangible personal property.	500,000	150,000
Note payable, stated interest at 6%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of July 23, 2024. The note is unsecured.	25,000	25,000
Note payable, stated interest at 6%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of July 17, 2024. The note is unsecured.	60,000	60,000
Note payable, stated interest at 6%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of April 6, 2025. The note is unsecured.	50,000	50,000
Loan, stated interest at 6%, with principal balance and unpaid interest due within four quarters subsequent to maturity date of September 21, 2026. The note is unsecured.	670,000	-
	5,908,117	5,940,296
Less current portion	(547,355)	(359,250)
	\$ 5,360,762	\$ 5,581,046

Scheduled long-term debt maturities are as follows for years ended December 31:

2023	\$ 547,355
2024	981,572
2025	2,988,781
2026	463,797
2027	516,746
Thereafter	449,718
	\$ 5,947,969

Lionheart incurred interest expense of \$240,559 and \$180,815 for the years ended December 31, 2022 and 2021, respectively.

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Note 6 - Donated Goods

Lionheart receives donated classroom space for academies, and after school and summer programs. The donated space is provided at no cost to Lionheart and represents a gift-in-kind. The donated space is recorded at fair value, which is based on current market rates for rental facilities the Academy would have paid. The fair value of donated academy space was \$1,803,971 and \$1,539,040 for the years ending December 31, 2022 and 2021, respectively.

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions consists of \$30,355 for Helping Hands and \$263,358 for academy scholarships as of December 31, 2022. Net assets with donor restrictions consists of \$24,320 for Helping Hands and \$247,407 for academy scholarships as of December 31, 2021.

Note 8 - Commitments and Contingencies

The Academy is subject to various claims and liabilities in the ordinary course of business. The Academy has litigation related to a deficiency with licensing requirements as of December 31, 2022. The Academy maintains various forms of insurance that the Academy's management believes are adequate to reduce the exposure to such risks to an acceptable level. However, losses associated with this litigation cannot be estimated at this time.

Lionheart does not pay the market rent to the host church for the space they utilize. In lieu of market rent, Lionheart provides certain start-up funding; see Note 1 - Advanced Rent. In addition, for covenants signed prior to 2021, Lionheart has committed to pay an amount equal to net income ranging from 50% to 90% to the respective host church, once the start-up costs have been recaptured. This cost is reported as program rent expense and is \$310,679 and \$318,614 for the years ended December 31, 2022 and 2021. Beginning with covenants signed in 2021, Lionheart has committed to pay the respective host church a percentage of net revenues earned ranging from 2% to 15% by the academy monthly. Each host church has a table for the percentage paid per net revenue tranche attained by the academy. This cost is reported as an other program expense on the statement of functional expense and was \$73,590 and \$0 for the years ended December 31, 2022 and 2021, respectively.

Lionheart is self-insured for certain healthcare costs. Most major claims are fully covered by Christian Healthcare Ministries ("CHM"). If the claim stems from a non-covered situation by CHM, then Lionheart would be liable for up to \$75,000, at which point the remainder would be covered by the stop-loss insurance provider. The accruals for these healthcare costs are based on claims filed and estimates of claims incurred but not yet reported, and generally are not discounted. Lionheart considers a number of factors, including historical losses, when making these determinations. Lionheart records a monthly accrual based on number of employees and coverage type and has a reserve goal of \$750,000. Lionheart maintains third-party stop-loss insurance policies (with an AM Best rated "A" company) to cover certain liability costs in excess of predetermined retained amounts. Management believes that the accruals are adequate to cover the retained liability. Because of the inherent uncertainties in estimating the accrual, it is at least reasonably possible that the estimate used will change within the near term.

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Note 9 - Leases

Lionheart leases equipment and office space under operating leases that expire through 2027. Lionheart also pays rent for academy space not covered under a lease agreement; see Note 8. The equipment leases require Lionheart to pay variable costs related to copies. The variable costs were not determinable at the lease commencement and were not included in the measurement of lease assets and liabilities. Only lease options that the Company believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. Rent expense under these leases was \$61,937 and \$39,567 for the years ended December 31, 2022 and 2021, respectively.

The following lease costs are included in the statement of activities for the year ended December 31, 2022:

Operating lease liability costs, program expense	\$ 16,334
Operating lease liability costs, management and general expense	2,766
Short-term lease costs, management and general expense	6,607
Variable lease costs, program expense	36,230

The following table provides information about cash flows and assumptions as of December 31, 2022:

Cash paid for operating lease liabilities	\$ 19,100
Operating leases, weighted average remaining lease term	31
Operating leases, weighted average discount rate	1.5%

Maturities of lease liabilities are as follows:

2023	\$ 24,768
2024	21,477
2025	20,332
2026	18,071
2027	6,575
Thereafter	<u>91,223</u>
Less: interest	<u>(2,787)</u>
Present value of lease liabilities	<u>\$ 88,436</u>

Note 10 - Concentrations

Lionheart maintains cash balances with financial institutions, which, at times, exceed federally insured limits. Lionheart maintained uninsured balances at financial institutions totaled \$5,733,313 and \$5,903,087 for the years ended December 31, 2022 and 2021, respectively.

Note 11 - Related Party

Lionheart has a shared services agreement with Skylark Camps, Inc. ("Skylark"), related party under common management. The agreement is effective through December 31, 2021 with annual automatic renewal. The shared service allocation was \$424,245 and \$248,510 for the year ended December 31, 2022 and 2021. Lionheart and Skylark also transfer funds as needed throughout the year. These transactions resulted in a payable due to Skylark of \$308 and \$7,280 as of December 31, 2022 and 2021.

Lionheart has a loan from an officer with an outstanding principal balance of \$190,000 as of December 31, 2022 and 2021. See Note 5. In addition, Lionheart received donations from board members and executive leaders totaling \$78,327 and \$71,062 for the years ended December 31, 2022 and 2021, respectively.

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Note 11 - Related Party, Continued

Lionheart also had reimbursables owed to employees in the amount of \$0 and \$8,392 for academy program expenses and travel as of December 31, 2022 and 2021, respectively, which is recorded in accounts payable.

Note 12 - Retirement Plan

Lionheart has a 403(b) retirement plan. Employees are eligible upon hire. Lionheart makes matching contributions equal to 50% on the first 6% of the active participant's compensation. Participants vest in the matching contribution from start date. The plan permits in-service and hardship withdrawals and loans. Lionheart's expense for the 403(b) retirement plan totaled \$66,147 and \$54,318 for the years ended December 31, 2022 and 2021, respectively.

Note 13 - Grants and Other Income

During 2021, Lionheart received loan proceeds in the amount of \$1,436,900 under the Paycheck Protection Program ("PPP"). The PPP is part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). Lionheart met the criteria and received loan forgiveness from the small business administration ("SBA"). These proceeds are included in grant income.

Lionheart received grant proceeds from the Texas Workforce Commissions ("TWC") under the Child Care Development Block Grant in the amount of \$5,112,033 and \$1,297,399 for the years ended December 31, 2022 and 2021, respectively. The TWC block grant is part of the Service Industry Recovery ("SIR") program and is funded through the federal CARES, ARPA, and CRRSAA recovery legislation passed by Congress. Lionheart also received grant proceeds from the Ohio Child Care Resource & Referral Association ("OCCRRA") for the One-Time Pandemic Support Program in the amount of \$318,548 and \$17,500 for the years ended December 31, 2022 and 2021, respectively. The OCCRRA payments were provided by the CRRSAA recovery legislation passed by Congress. Lionheart also received grant proceeds from the Colorado Department of Human Services ("CDHS") for the Colorado Child Care Stabilization Grants in the amount of \$15,799 and \$0 for the years ended December 31, 2022 and 2021, respectively. These proceeds are included in grant income

Lionheart received other income representing an employee retention credit of \$1,252,131 during the year ended December 31, 2021. The Employee Retention Credit under the CARES Act is a refundable federal tax credit against certain employment taxes equal to a percentage of the qualified wages they pay to employees after March 12, 2020, through December 31, 2020. The Employee Retention Credit was amended by the Taxpayer Certainty and Disaster Tax Relief Act of 2020 and it increased the percentage of the qualified wages and extended the coverage period to include January 1, 2021 through June 30, 2021.

Note 14 - Management's Review

Management has evaluated subsequent events through March 9, 2023, the date on which the financial statements were available to be issued.