

R&A CPAs

A PROFESSIONAL CORPORATION

**MOUNTAIN ROSE  
ACADEMY, INC.**

**(AN S CORPORATION)**

COMPLIANCE QUESTIONNAIRE AND  
INDEPENDENT ACCOUNTANTS'  
REPORT ON APPLYING AGREED-  
UPON PROCEDURES

YEAR ENDED JUNE 30, 2021



## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors and the Arizona State Board for Charter Schools  
Mountain Rose Academy, Inc.  
Tucson, Arizona

We have performed the procedures included in the accompanying *Arizona State Board for Charter Schools Legal Compliance Questionnaire* (the "Questionnaire") for Mountain Rose Academy, Inc. ("the Academy") for the year ended June 30, 2021. The Academy's management is responsible for the Academy's compliance with those requirements.

The Arizona State Board for Charter Schools (the "Board") and the Academy have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting the specified parties in evaluating the Academy's compliance with the requirements of the Board and certain rules and regulations applicable to Arizona charter schools. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Our findings related to the procedures are contained in the accompanying Questionnaire.

We were engaged by the Academy to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Academy's compliance. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Arizona State Board for Charter Schools and the management of the Academy and is not intended to be and should not be used by anyone other than these specified parties.

*R&A CPAs*

*A Professional Corporation*

Tucson, Arizona  
November 5, 2021



**Arizona State Board for Charter Schools**  
**Legal Compliance Questionnaire**  
**Charter/CTDS Mountain Rose Academy, Inc.**  
**Fiscal Year Ended June 30, 2021**

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## INSTRUCTIONS

**NOTE: This questionnaire should only be used for charters that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (charters that HAVE an exception). If a charter is subject to procurement requirements pursuant to A.R.S. §§15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines) which is available on the Arizona State Board for Charter Schools' website <https://asbcs.az.gov>.**

In order to determine whether a charter that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire in accordance with both the agreed upon procedures (instructions contained herein) and the attestation standards established by the American Institute of Certified Public Accountants. (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum agreed upon procedures, as well as those identified throughout the questionnaire, must be used for completing the Legal Compliance Questionnaire in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The State Board for Charter Schools may reject questionnaires not meeting these standards.

- ◆ Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the charter complies with the legal requirements, and the evidence must be included in the documentation.
- ◆ Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.
- ◆ Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.
- ◆ The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.
- ◆ The sample size should be expanded if the audit firm cannot clearly determine whether the charter complies with the legal requirements of the question.
- ◆ If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.

- ◆ All “No” and “N/A” answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.
  
- ◆ A “Yes” answer indicates that the audit firm has determined that the charter complies with the legal requirements of the question and a “No” answer indicates the charter does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, resulting documentation, and any other sources.

The resulting documentation supporting the audit firm’s answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the documentation a copy of the questionnaire containing references to procedures performed for each question.

## Legal Compliance Questionnaire<sup>1</sup>

Questions/Subject Area	Yes/No	Comments
<b>Personnel</b>		
1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? <b>A.R.S. §15-183(C)(5) and A.R.S. §15-512(H)</b>	Yes	
(QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL’S FCC HAS EXPIRED.)	N/A	All employees had valid fingerprint clearance cards.
2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board’s website prior to completing these questions) <b>A.R.S. §15-183(C)(5)</b> :		
a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date?		
b. Did DPS receive the application prior to the hire date?	N/A	All employees had valid fingerprint clearance cards.
c. Prior to placement, did the school do all of the following?	N/A	All employees had valid fingerprint clearance cards.
i) Document the necessity for hiring/placing the individual prior to receiving a FCC?		
ii) Obtain statewide criminal history information on the individual?	N/A	All employees had valid fingerprint clearance cards.
iii) Obtain references from the applicant’s current and previous employers?	N/A	All employees had valid fingerprint clearance cards.
3. Did the charter school maintain up-to-date fingerprints of all Governing Body members as of the testing date? <b>Charter Contract<sup>2</sup></b>	N/A	All employees had valid fingerprint clearance cards.

<sup>1</sup> For the purposes of this questionnaire, please note that “Governing Body” means the group of persons required by A.R.S. §15-183(E)(8) that is responsible for policy decisions of the charter school. The term “Governing Board” means the group of persons that the charter holder has assigned the responsibility addressed by the question. The applicable group of persons may be the Governing Body or the officers, directors, members or partners of the charter holder. The applicable group of persons may vary depending on the issue addressed by the question.

<sup>2</sup> Specific contract cites could not be provided as term references vary per contract year.

4. Were all other personnel fingerprint checked as of the testing date? <b>A.R.S. §15-183(C)(5) and A.R.S. §15-512</b>	N/A	All employees obtain fingerprint clearance cards.
5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of information about the educational and teaching background and experience in a particular academic content subject area for all current employees who provide instruction to pupils? <b>A.R.S. §15-183(F)</b>	Yes	
	<b>Yes/No</b>	<b>Comments</b>
<b>Required Filings</b>		
1. Is the school in good standing with the following regulatory bodies:	Yes	
a. Internal Revenue Service <b>U.S.C. Title 26</b>		
i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	Yes	
ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 <sup>th</sup> ) is a true statement.	Yes	
iii. If the response to 1.a.i, 1.a.ii, or both is “no”, does the school have a payment plan in place with the Internal Revenue Service?	N/A	We noted no evidence of payroll or income taxes payable to the IRS from a prior year as of June 30 <sup>th</sup> .
iv. If the answer to Question 1.a.iii is “yes”, has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 <sup>th</sup> )?	N/A	We noted no evidence of payroll or income taxes payable to the IRS from a prior year as of June 30 <sup>th</sup> .
b. Arizona Department of Revenue <b>A.R.S. §43-401 and §43-1111</b>	Yes	
i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	Yes	
ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 <sup>th</sup> ) is a true statement.	Yes	
iii. If the response to 1.b.i, 1.b.ii, or both is “no”, does the school have a payment plan in place with the Arizona Department of Revenue?	N/A	We noted no evidence of payroll or income taxes payable to the Arizona Department of Revenue from a

		prior year as of June 30 <sup>th</sup> .
iv. If the answer to Question 1.b.iii is “yes”, has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 <sup>th</sup> )?	N/A	We noted no evidence of payroll or income taxes payable to the Arizona Department of Revenue from a prior year as of June 30 <sup>th</sup> .
c. Arizona Department of Economic Security <b>A.R.S. §§23-701 through 23-757</b>	Yes	
i. State unemployment contributions requirements for the audited fiscal year?	Yes	
ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30 <sup>th</sup> ) is a true statement.	Yes	
iii. If the response to 1.c.i, 1.c.ii, or both is “no”, does the school have a payment plan in place with the Arizona Department of Economic Security?	N/A	We noted no evidence of state unemployment contributions payable to the Arizona Department of Economic Security from a prior year as of June 30 <sup>th</sup> .
iv. If the answer to Question 1.c.iii is “yes”, has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 <sup>th</sup> )?	N/A	We noted no evidence of state unemployment contributions payable to the Arizona Department of Economic Security from a prior year as of June 30 <sup>th</sup> .
d. Corporation Commission (e.g., annual report)? <b>Charter Contract</b>	Yes	
2. Was a copy of the adopted budget submitted electronically to the Superintendent of Public Instruction no later than July 18 <sup>th</sup> ? <b>A.R.S. §15-905(E) and §15-183(E)(6)</b>	Yes	
3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15 <sup>th</sup> ? <b>A.R.S. §15-183(E)(6) and 15-904(A)</b>	Yes	

<b>Special Education</b>		
1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education?	Yes	
2. Does the school conduct 45 day screenings on all new students? <b>AAC R7-2-401</b>	Yes	
3. Are evaluations and IEPs on file for special education students? <b>34 CFR 300.341-350 and 300.531-536</b>	Yes	
<b>Classroom Site Fund - A.R.S. §15-977 &amp; OAG Memorandum No. 44</b>		
1. Did the school properly allocate Classroom Site Fund receipts among the following projects: 1011 – Base Salary (20%), 1012 – Performance Pay (40%), and 1013 – Other (40%)?	Yes	
2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses?	Yes	
3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses?	Yes	
4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, assessment intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums?	Yes	
5. Did the school use Classroom Site Fund monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance on the Classroom Site Fund.)	Yes	
6. If the school had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years?	Yes	
7. Did the school have sufficient cash at year-end to cover the carry over monies, and what was the Classroom Site Fund <u>cash</u> carryover balance at year-end?	Yes	The Classroom Site Fund cash carryover balance at year-end was \$39,967.
<b>Student Attendance Reporting</b>		
<b>If test work performed in this section discloses a net overstatement or understatement of membership and/or absence days, based on A.R.S. and ADE’s school finance external guidelines, report the net overstatement or understatement in the “Comments” column next to each applicable question.</b>		
	<b>Yes/No</b>	<b>Comments</b>
1. Did the school’s calendar ensure school was in session for the required days and students received the required instructional hours per grade level, including Arizona Online Instruction (AOI) Programs as prescribed in A.R.S. §§15-808(J)(1), 15-901(A)(1) and 15-901.07?	Yes	

**For Student Attendance Reporting questions, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. These samples should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested should be selected from the first 100 days of school. In the parentheses provided within the questions, write the actual number of transactions tested. If all transactions were tested, indicate such in the “Comments” column.**

<p><b>For question 2, select at least 3 student attendance records.</b></p> <p>2. If the school had an early (pre-) kindergarten program, based upon review of (___) early (pre-) kindergarten students’ attendance records, did the school only calculate and submit membership information for this program for students with disabilities? <b>A.R.S. §15-901(A)(1)(a)(i) and USFRCS Memorandum No. 33</b></p>	N/A	School is high school only.
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<p><b>For question 3, use the following sample sizes:</b></p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>SCHOOLWIDE ADM</u></th> <th style="text-align: center;"><u>Student Attendance Records</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">&lt;1,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">1,000-5,000</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">&gt;5,000</td> <td style="text-align: center;">15</td> </tr> </tbody> </table>	<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>	<1,000	5	1,000-5,000	10	>5,000	15		
<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>									
<1,000	5									
1,000-5,000	10									
>5,000	15									

<p>3. Based upon review of (5) students’ attendance records, did the school appropriately track and report elementary, junior high, and high school students’ membership and absences? <b>A.R.S. §§15-901(A)(1)(a)(i) and 15-901(A)(5)(a)(i), and USFRCS Memorandum No. 33</b></p>	No	The School does not report absences. Minutes present were overstated by 300 minutes. The membership days were appropriately reported.
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<p><b>For questions 4-7, use the following sample sizes:</b></p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>SCHOOLWIDE ADM</u></th> <th style="text-align: center;"><u>Student Attendance Records</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">&lt;1,000</td> <td style="text-align: center;">3</td> </tr> <tr> <td style="text-align: center;">1,000-5,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">&gt;5,000</td> <td style="text-align: center;">7</td> </tr> </tbody> </table>	<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>	<1,000	3	1,000-5,000	5	>5,000	7		
<u>SCHOOLWIDE ADM</u>	<u>Student Attendance Records</u>									
<1,000	3									
1,000-5,000	5									
>5,000	7									

<p>4. Based upon review of (___) high school students’ attendance records, did the school prorate the membership of the students enrolled in less than 4 subjects?</p>	N/A	There were no students enrolled in less than four subjects.
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<p>5. For schools-Based on a review of (___) students' (enrolled in a program provided by a CTED in a facility owned or operated by a school) attendance records, did the school report the actual enrollment for only the school classes the student was enrolled in at the school site (excluding CTED program classes) under the school's CTDS number?</p>	N/A	School does not offer a CTED program.								
<p>6. For schools offering an AOI Program, based upon a review of (___) AOI students' attendance records for 4 weeks: (<b>ADE's guideline <a href="#">SF-0003-AOI Participation</a></b>)</p> <p>a. Was the guardian-approved or school computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI school? <b>A.R.S. §15-808(E)</b></p>	N/A	School does not offer an AOI program.								
<p>b. Did the hours reported to ADE agree to the guardian-approved or school computer-generated daily log?</p>	N/A	School does not offer an AOI program.								
<p>c. Were all students who participated in an AOI Program residents of this state? <b>A.R.S. §15-808(B)</b></p>	N/A	School does not offer an AOI program.								
<p>d. Was the student's Intended Full Time Equivalency Enrollment Statement maintained?</p>	N/A	School does not offer an AOI program.								
<p>7. Based upon review of the student attendance records in question 6, did the school follow its procedures to re-determine the actual FTE for each student enrolled in an AOI Program following a student's withdrawal or after the end of the school year?</p>	N/A	School does not offer an AOI program.								
<p><b>For questions 8-12, use the following sample sizes:</b></p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><b>SCHOOLWIDE ADM</b></th> <th style="text-align: center;"><b>Student Attendance Records</b></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><b>&lt;1,000</b></td> <td style="text-align: center;"><b>5</b></td> </tr> <tr> <td style="text-align: center;"><b>1,000-5,000</b></td> <td style="text-align: center;"><b>10</b></td> </tr> <tr> <td style="text-align: center;"><b>&gt;5,000</b></td> <td style="text-align: center;"><b>15</b></td> </tr> </tbody> </table>	<b>SCHOOLWIDE ADM</b>	<b>Student Attendance Records</b>	<b>&lt;1,000</b>	<b>5</b>	<b>1,000-5,000</b>	<b>10</b>	<b>&gt;5,000</b>	<b>15</b>		
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<b>&lt;1,000</b>	<b>5</b>									
<b>1,000-5,000</b>	<b>10</b>									
<b>&gt;5,000</b>	<b>15</b>									
<p>8. Based upon review of (5) students withdrawn for having 10 consecutive unexcused absences (all grades), was the student only counted in membership through the last day of actual attendance or excused absence? <b>A.R.S. §15-901(A)(1)</b></p>	Yes									
<p>9. Based upon review of (5) entries, does the student's name entered in the student management system match the name on the legal document on file? <b>A.R.S. §15-828(D)</b></p>	Yes									

10. Based upon review of (5) entries: ( <b>Note:</b> Enrollment forms are not required for continuing students at the same school.)		
a. Were the entry dates entered into the school’s computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry?	Yes	
b. Did the entry date in the computerized attendance system agree to the entry form?	Yes	
c. Did membership begin on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school? <b>ADE’s External Guideline GE-17</b>	Yes	
d. Did the school obtain and maintain verifiable documentation of Arizona residency upon enrollment? <b>A.R.S. §15-802(B)(1) and ADE’s Arizona Residency Documentation Guidelines</b>	Yes	
11. Did the school exclude nonresident students from the school’s student count and state aid calculations and charge tuition, as applicable? <b>A.R.S. §15-823(G) and (L)</b>	N/A	All students were Arizona residents.
12. Based upon review of (5) withdrawals:		
a. Were the withdrawal dates entered into the school’s computerized attendance system within 5 working days after the actual day of withdrawal and was documentation maintained to support the date of data entry? ( <b>Note:</b> “Day of withdrawal” for determining timely data entry means: a. the later of the student’s withdrawal date or the day the school is notified the student will not be returning; or b. the 10 <sup>th</sup> day of unexcused absence for students withdrawn for having 10 consecutive unexcused absences.)	Yes	
b. Did the withdrawal date in the computerized attendance system agree to the withdrawal form? ( <b>Note:</b> If the computerized attendance system requires the school to input the day following the withdrawal date for a student to be counted in membership through the last day of actual attendance or excused absence, the withdrawal date on the system should be the school day following the withdrawal date on the form.)	Yes	

c. Did the school prepare and retain an <i>Official Notice of Pupil Withdrawal</i> form that a school administrator signed for each withdrawal? <b>A.R.S. §15-827</b>	Yes	
13. Based upon review of the school's student data uploaded to ADE (AzEDS ADM15 or ABSATT10 report, as applicable), did the membership and absences agree to the school's computerized attendance system records for the first 100 days of school? ( <b>Note:</b> For an AOI Program, review year-end attendance information.)	Yes	
14. Did the school report students that completed all high school requirements with the applicable graduation code and use the appropriate year-end status code for other students?	Yes	
15. For students participating in distance learning, did the school follow attendance procedures defined in the distance learning plan approved by ADE?	Yes	
	<b>Yes/No</b>	<b>Comments</b>
<b>Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009)</b>		
1. Did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations?	Yes	
2. Did the school post all public meeting notices on its website?	Yes	
3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting?	Yes	
4. Were notices and agenda of public meetings posted at least 24 hours before the meeting?	Yes	
5. Were written minutes prepared or a recording made of Governing Body meetings?	Yes	
<b>Insurance Requirements A.R.S. §15-183(M)</b>		
Does the school have the required insurance for liability and property loss?	Yes	
<b>Tuition A.R.S. §15-185(B)(6) (See also Attorney General Opinion I98-007)</b>		
Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents]?	Yes	

<b>Records Management</b>		
1. Did the school retain records in accordance with the <i>General Retention Schedules for Education – K-12</i> published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? ( <a href="http://www.azlibrary.gov/arm/retention-schedules">www.azlibrary.gov/arm/retention-schedules</a> )	Yes	
2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)?	Yes	

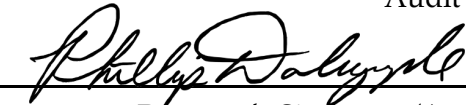
This Questionnaire was completed in accordance with the minimum standards as set forth in the instructions on pages 2 and 3.

R&A CPAs, P.C.

November 5, 2021

Audit Firm

Date



Shareholder

Preparer's Signature (Audit Firm Representative)

Title

**R&A CPAs**

A PROFESSIONAL CORPORATION

**ROSE MANAGEMENT GROUP, INC.**

**DESERT ROSE ACADEMY, INC.**

**MOUNTAIN ROSE ACADEMY, INC.**

**CANYON ROSE ACADEMY, INC.**

**PIMA ROSE ACADEMY, INC.**

**(S CORPORATIONS)**

**CONSOLIDATED AND COMBINED FINANCIAL  
STATEMENTS, SUPPLEMENTAL SCHEDULES,  
INDEPENDENT AUDITORS' REPORT, AND  
REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS**

**YEAR ENDED JUNE 30, 2021**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rose Management Group, Inc.  
Desert Rose Academy, Inc.  
Mountain Rose Academy, Inc.  
Canyon Rose Academy, Inc.  
Pima Rose Academy, Inc.  
Tucson, Arizona

We have audited the accompanying consolidated and combined financial statements of Rose Management Group, Inc. and its wholly owned subsidiary, Rose Development Group, LLC (an S corporation); Desert Rose Academy, Inc. (an S corporation); Mountain Rose Academy, Inc. (an S corporation); Canyon Rose Academy, Inc. (an S corporation); and Pima Rose Academy, Inc. (an S corporation) (collectively, the "Organization"), which comprise the consolidated and combining balance sheet as of June 30, 2021, and the related consolidated and combining statement of activities and consolidated and combined statements of changes in shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and combined 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 consolidated and combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and combined 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 entity'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 consolidated and combined 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 consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note B to the consolidated and combined financial statements, the Organization adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09 *Revenue from Contracts with Customers* (“Topic 606”). Our opinion is not modified with respect to this matter.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The accompanying supplemental schedules as listed in the accompanying index and the supplemental combining data on the combining balance sheet and statement of activities are presented for purposes of additional analysis and are not a required part of the basic consolidated and combined 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 consolidated and combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and combined 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2021, on our consideration of the Organization’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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’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 Organization’s internal control over financial reporting and compliance.

R&A CPA

*A Professional Corporation*

Tucson, Arizona  
November 5, 2021

## CONSOLIDATED AND COMBINING BALANCE SHEET AS OF JUNE 30, 2021

	Supplemental Combining Data						
	Rose Management Group, Inc. (Consolidated)	Desert Rose Academy, Inc.	Mountain Rose Academy, Inc.	Canyon Rose Academy, Inc.	Pima Rose Academy, Inc.	Eliminations	Combined
<b>CURRENT ASSETS:</b>							
Cash	\$ 855,834	\$ 305,074	\$ 453,715	\$ 656,270	\$ 759,894	\$ -	\$ 3,030,787
Restricted cash	-	41,399	39,967	23,802	79,182	-	184,350
Accounts receivable	-	2,626	1,541	1,646	3,290	-	9,103
Prepaid assets	132,213	-	-	-	-	-	132,213
<b>Total current assets</b>	<b>988,047</b>	<b>349,099</b>	<b>495,223</b>	<b>681,718</b>	<b>842,366</b>	<b>-</b>	<b>3,356,453</b>
<b>LONG-TERM ASSETS:</b>							
Property and equipment, net of accumulated depreciation of \$259,255	1,768,738	-	-	-	-	-	1,768,738
Cash surrender value of life insurance	117,725	-	-	-	-	-	117,725
Covenant not-to-compete, net of accumulated amortization of \$180,026	119,974	-	-	-	-	-	119,974
Goodwill, net of accumulated amortization of \$142,220	1,236,033	-	-	-	-	-	1,236,033
Charter contracts, net of accumulated amortization of \$137,047	-	108,712	197,640	310,605	466,996	-	1,083,953
Note receivable from shareholder	546,650	-	-	-	-	-	546,650
Due from related parties	27,000	-	-	-	-	-	27,000
<b>Total long-term assets</b>	<b>3,816,120</b>	<b>108,712</b>	<b>197,640</b>	<b>310,605</b>	<b>466,996</b>	<b>-</b>	<b>4,900,073</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,804,167</b>	<b>\$ 457,811</b>	<b>\$ 692,863</b>	<b>\$ 992,323</b>	<b>\$ 1,309,362</b>	<b>\$ -</b>	<b>\$ 8,256,526</b>
<b>CURRENT LIABILITIES:</b>							
Accounts payable and accrued expenses	\$ 162,782	\$ 22,598	\$ 26,626	\$ 30,817	\$ 17,542	\$ -	\$ 260,365
Notes payable to related parties, current portion	583,031	-	-	-	-	-	583,031
Notes payable, current portion	176,012	-	-	-	-	-	176,012
Intercompany (receivable) payable	(1,171,564)	158,732	239,891	321,657	451,284	-	-
<b>Total current liabilities</b>	<b>(249,739)</b>	<b>181,330</b>	<b>266,517</b>	<b>352,474</b>	<b>468,826</b>	<b>-</b>	<b>1,019,408</b>
<b>LONG-TERM LIABILITIES:</b>							
Deferred rent (receivable) payable	(3,528)	19,396	25,982	26,613	178,085	-	246,548
Due to related parties	21,351	-	-	-	-	-	21,351
Notes payable to related parties, less current portion	3,578,989	-	-	-	-	-	3,578,989
Notes payable, less current portion	138,574	-	-	-	-	-	138,574
<b>Total long-term liabilities</b>	<b>3,735,386</b>	<b>19,396</b>	<b>25,982</b>	<b>26,613</b>	<b>178,085</b>	<b>-</b>	<b>3,985,462</b>
<b>Total liabilities</b>	<b>3,485,647</b>	<b>200,726</b>	<b>292,499</b>	<b>379,087</b>	<b>646,911</b>	<b>-</b>	<b>5,004,870</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE N)</b>							
<b>SHAREHOLDERS' EQUITY:</b>							
Common stock	244	-	-	-	-	-	244
Additional paid-in-capital	489,860	222,033	279,935	341,255	451,057	-	1,784,140
Retained earnings	828,416	35,052	120,429	271,981	211,394	-	1,467,272
<b>Total shareholders' equity</b>	<b>1,318,520</b>	<b>257,085</b>	<b>400,364</b>	<b>613,236</b>	<b>662,451</b>	<b>-</b>	<b>3,251,656</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 4,804,167</b>	<b>\$ 457,811</b>	<b>\$ 692,863</b>	<b>\$ 992,323</b>	<b>\$ 1,309,362</b>	<b>\$ -</b>	<b>\$ 8,256,526</b>

## CONSOLIDATED AND COMBINING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021

	Supplemental Combining Data						Eliminations	Combined
	Rose Management Group, Inc. (Consolidated)	Desert Rose Academy, Inc.	Mountain Rose Academy, Inc.	Canyon Rose Academy, Inc.	Pima Rose Academy, Inc.			
<b>NET INCOME</b>								
<b>REVENUES:</b>								
State equalization	\$ -	\$ 1,461,188	\$ 2,247,028	\$ 3,060,024	\$ 3,793,596	\$ -	\$ -	\$ 10,561,836
State site fund	-	109,535	164,940	217,529	278,660	-	-	770,664
Enrollment Stabilization Grant	-	72,119	62,807	77,552	97,283	-	-	309,761
Other revenue	20,331	7,235	11,161	15,082	19,940	-	-	73,749
Management fees	8,732,169	-	-	-	-	(8,732,169)	-	-
<b>Total revenues</b>	<b>8,752,500</b>	<b>1,650,077</b>	<b>2,485,936</b>	<b>3,370,187</b>	<b>4,189,479</b>	<b>(8,732,169)</b>	<b>-</b>	<b>11,716,010</b>
<b>OPERATING EXPENSES:</b>								
Salaries and related benefits	3,403,013	485,117	523,080	666,403	506,098	-	-	5,583,711
Facilities	1,338,984	278,158	454,846	581,360	612,248	(1,927,404)	-	1,338,192
Depreciation	261,364	-	-	-	-	-	-	261,364
Advertising	195,042	24,930	24,148	133,533	24,058	(206,669)	-	195,042
Amortization	162,220	7,765	16,470	19,413	93,399	-	-	299,267
Utilities	115,876	18,010	19,110	32,027	26,606	(95,753)	-	115,876
Office expenses	115,482	5,897	8,861	6,939	13,499	(35,196)	-	115,482
Instructional aids and supplies	113,019	17,089	21,619	29,281	22,980	(90,969)	-	113,019
Repairs and maintenance	110,867	27,127	15,597	30,077	14,148	(86,949)	-	110,867
<b>Total operating expenses</b>	<b>5,815,867</b>	<b>864,093</b>	<b>1,083,731</b>	<b>1,499,033</b>	<b>1,313,036</b>	<b>(2,442,940)</b>	<b>-</b>	<b>8,132,820</b>
<b>Income from operations</b>	<b>2,936,633</b>	<b>785,984</b>	<b>1,402,205</b>	<b>1,871,154</b>	<b>2,876,443</b>	<b>(6,289,229)</b>	<b>-</b>	<b>3,583,190</b>
<b>OTHER EXPENSES:</b>								
Contract services	872,608	43,498	45,057	81,030	46,806	(216,391)	-	872,608
Interest expense	144,956	-	-	-	-	-	-	144,956
Other expense	23,689	1,570	1,899	2,168	2,064	-	-	31,390
Loss on disposal of equipment	2,240	-	-	-	-	-	-	2,240
Management fees	-	705,864	1,234,820	1,515,975	2,616,179	(6,072,838)	-	-
<b>Total other expenses</b>	<b>1,043,493</b>	<b>750,932</b>	<b>1,281,776</b>	<b>1,599,173</b>	<b>2,665,049</b>	<b>(6,289,229)</b>	<b>-</b>	<b>1,051,194</b>
<b>NET INCOME</b>	<b>\$ 1,893,140</b>	<b>\$ 35,052</b>	<b>\$ 120,429</b>	<b>\$ 271,981</b>	<b>\$ 211,394</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,531,996</b>

The accompanying notes are an integral part of these financial statements.  
See Independent Auditors' Report.

### CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Rose Management Group, Inc. (Consolidated)		Desert Rose Academy, Inc.		Mountain Rose Academy, Inc.		Canyon Rose Academy, Inc.		Pima Rose Academy, Inc.		Additional Paid- In-Capital	Retained Earnings	Total
	Shares *	Common Stock	Shares **	Common Stock	Shares **	Common Stock	Shares **	Common Stock	Shares **	Common Stock			
<b>CHANGES IN SHAREHOLDERS' EQUITY</b>													
<b>BALANCE JUNE 30, 2020</b>	554	\$ 554	554	\$ -	554	\$ -	554	\$ -	837	\$ -	\$ 84,951	\$ 3,144,405	\$ 3,229,910
Distributions	-	-	-	-	-	-	-	-	-	-	-	(1,064,724)	(1,064,724)
Shareholder buyout	(310)	(310)	(310)	-	(310)	-	(310)	-	(468)	-	1,699,189	(3,144,405)	(1,445,526)
Net income	-	-	-	-	-	-	-	-	-	-	-	2,531,996	2,531,996
<b>BALANCE JUNE 30, 2021</b>	<u>244</u>	<u>\$ 244</u>	<u>244</u>	<u>\$ -</u>	<u>244</u>	<u>\$ -</u>	<u>244</u>	<u>\$ -</u>	<u>369</u>	<u>\$ -</u>	<u>\$ 1,784,140</u>	<u>\$ 1,467,272</u>	<u>\$ 3,251,656</u>

\* Rose Management Group, Inc. has authorized 1,000,000 shares of \$1 par value common stock

\*\* Each academy has authorized 1,000,000 shares of no par value common stock

**CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
JUNE 30, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

<b>NET INCOME</b>	\$ 2,531,996
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Depreciation	261,364
Amortization	299,267
Decrease in cash surrender value of life insurance	98,746
Loss on disposal of equipment	2,240
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>	
Accounts receivable	91,616
Prepaid assets	(94,378)
Accounts payable and accrued expenses	(81,216)
Deferred rent payable	15,513
	<u>3,125,148</u>
<b>Total net cash provided by operating activities</b>	<u>3,125,148</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of property and equipment	(27,672)
Premiums paid on life insurance policies	(59,016)
Advances to related parties	(8,495)
	<u>(95,183)</u>
<b>Total net cash used in investing activities</b>	<u>(95,183)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments received on note receivable from shareholder	34,536
Issuance of note receivable from shareholder	(91,926)
Payments on amounts due to related parties	(30,278)
Payments on notes payable	(195,146)
Payments on notes payable to related parties	(913,950)
Distributions to shareholders	(1,064,724)
	<u>(2,261,488)</u>
<b>Total net cash used in financing activities</b>	<u>(2,261,488)</u>

<b>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	768,477
Cash, cash equivalents, and restricted cash at beginning of year	<u>2,446,660</u>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</b>	<u>\$ 3,215,137</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the year for interest	<u>\$ 144,956</u>
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**NON-CASH INVESTING AND FINANCING ACTIVITIES**

See Note G

**NOTES TO FINANCIAL STATEMENTS****NOTE A. NATURE OF OPERATIONS**

Rose Management Group, Inc., an S corporation, provides comprehensive management services under separate contracts with four school corporations. Each management contract is executed with a board of directors unique to each school corporation, thereby avoiding conflicts of interest. The school corporations are Desert Rose Academy, Inc., Mountain Rose Academy, Inc., Canyon Rose Academy, Inc., and Pima Rose Academy, Inc. (collectively, the “School Corporations” or the “Academies”).

Specifically, Rose Management Group, Inc. provides comprehensive human resources; employee leasing; student recruitment; a curricular and instructional system; management of accounting, legal, insurance, school operations, and facilities; special education services; capital equipment and fixtures; reporting and compliance services; and financial services to each individual school corporation subject to the terms of a legally binding management contract. Management contracts are multi-year with specific ending dates. The contracts were subject to renewal in June 2021 and were extended to June 2024.

The School Corporations operate secondary education charter schools. Statutorily, charter schools in Arizona are regulated and funded by the State to provide additional academic choices for parents and students and to improve pupil achievement through innovations in scheduling, curriculum and instructional methodologies, and financial management.

Rose Management Group, Inc. acquired 100% interest in Rose Development Group, LLC during the year ended June 30, 2018. Rose Development Group, LLC owns the building and land which is used for the school site operated by Canyon Rose Academy, Inc.

**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****BASIS OF ACCOUNTING***

The consolidated and combined financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect expenses as incurred and revenues as earned.

***PRINCIPLES OF CONSOLIDATION AND COMBINATION***

The consolidated and combined financial statements include the accounts of Rose Management Group, Inc. and its wholly owned subsidiary, Rose Development Group, LLC; Desert Rose Academy, Inc.; Mountain Rose Academy, Inc.; Canyon Rose Academy, Inc.; and Pima Rose Academy, Inc. (collectively, the “Organization”). All the companies operate or manage charter schools and are commonly owned. Intercompany transactions and accounts have been eliminated in the combination.

The Organization has a December 31 year end for tax reporting purposes. To comply with regulatory requirements, the consolidated and combined financial statements of the Organization have been presented for the period from July 1, 2020 to June 30, 2021.

***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT**

During the year ended June 30, 2021, the Organization adopted the new accounting pronouncement described below. The Organization did not restate retained earnings as a result of the adoption of the new standard as there was no material impact on previously reported amounts.

**ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606)**

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“Topic 606”). ASU No. 2014-09 removes existing inconsistencies and weaknesses in existing revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, and provides more useful information to users of financial statements through improved disclosure requirements. Specifically, Topic 606 requires an evaluation of contracts with customers based the following five-step model: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenues when (or as) each performance obligation is satisfied. Topic 606 is effective for annual periods or fiscal years beginning after December 15, 2019. The Organization adopted Topic 606 for the year ended June 30, 2021, under a modified retrospective approach. Accordingly, the Organization evaluated each exchange contract in process at the beginning of the year to determine if the performance obligations are satisfied over time or at a point in time. The implementation of Topic 606 resulted in no cumulative effect adjustment to retained earnings at the beginning of the year and there was no impact on the consolidated and combining statement of activities for the year ended June 30, 2021.

**CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with a purchased maturity of three months or less to be cash equivalents.

**RESTRICTED CASH**

In accordance with Arizona Revised Statute §15-977, Classroom Site Fund revenues are subject to use restrictions such as expenses related to teacher base salary increases, class size reduction, assessment intervention programs, and dropout prevention programs. CSF receipts remaining at year-end are carried forward as restricted cash, and totaled \$184,350 at June 30, 2021.

The reconciliation of cash and restricted cash presented on the consolidated and combining balance sheet that sum to the total of the same such amounts presented in the consolidated and combined statement of cash flows as of June 30, 2021 is as follows:

	Total consolidated and combined
Cash and cash equivalents	\$ 3,030,787
Restricted cash	184,350
<b>Total reported on the statement of cash flows at end of year</b>	<b>\$ 3,215,137</b>

The reconciliation of cash and restricted cash presented on the consolidated and combining balance sheet that sums to the total amounts presented in the supplemental statements of cash flows as of June 30, 2021 is as follows:

	Desert Rose Academy, Inc.	Mountain Rose Academy, Inc.	Canyon Rose Academy, Inc.	Pima Rose Academy, Inc.
Cash and cash equivalents	\$ 305,074	\$ 453,715	\$ 656,270	\$ 759,894
Restricted cash	41,399	39,967	23,802	79,182
<b>Total reported on the supplemental statements of cash flows at end of year</b>	<b>\$ 346,473</b>	<b>\$ 493,682</b>	<b>\$ 680,072</b>	<b>\$ 839,076</b>

**ACCOUNTS AND NOTE RECEIVABLE**

Accounts receivable of the Organization represents uncollateralized amounts due from the State of Arizona under contractual agreements. The Organization uses the allowance method for recording bad debt for financial reporting purposes. The allowance is estimated by management based on historical collections and known conditions regarding the ability to collect. Interest income on notes receivable is recognized on the accrual basis.

**PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Building	39
Building improvements	10 - 39
Office and school leasehold improvements	7 - 15
Furniture and equipment	3 - 15
Vehicles	5
Software	3 - 5

The cost of maintenance, repairs, and minor renewals are charged to expense in the year incurred. Expenditures in excess of \$5,000 that increase the useful lives of equipment are capitalized. When items are retired or disposed of, the cost and accumulated depreciation is removed from the accounts and any gain or loss is recognized.

In accordance with accounting principles generally accepted in the United States of America, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Based on this assessment, there was no impairment recorded at June 30, 2021.

**GOODWILL AND OTHER INTANGIBLES**

During July 2017, the Organization executed an agreement to purchase 100% interest in Rose Development Group, LLC, which owned the building and land for Canyon Rose Academy, Inc.'s school site. The transaction resulted in recognition of goodwill in the amount of \$146,477, which was calculated as the excess of the consideration transferred over the value of the assets. The Organization elected the accounting alternative for subsequent measurement of goodwill and accordingly amortizes goodwill on a straight-line basis over a period of 10 years.

As more fully described in Note G, the Organization executed an agreement to purchase all of the shares of two shareholders effective July 1, 2020. The transaction resulted in recognition of goodwill in the amount of \$1,275,720 and recognition of charter contracts in the School Corporations totaling \$1,221,000. The Organization elected the accounting alternative for subsequent measurement of goodwill and accordingly amortizes goodwill on a straight-line basis over a period of 10 years. The charter contracts are amortized over the remaining terms of the respective charter contracts in each School Corporation.

The Organization has elected to evaluate goodwill impairment triggering events only at the end of each reporting period.

For the year ended June 30, 2021, amortization expense related to goodwill and other intangibles was as follows:

	Rose Management Group, Inc. (Consolidated)		Mountain Rose Academy, Inc.			Pima Rose Academy, Inc.	Combined
	Desert Rose Academy, Inc.	Rose Academy, Inc.	Canyon Rose Academy, Inc.	Pima Rose Academy, Inc.	Pima Rose Academy, Inc.	Combined	
Goodwill	\$ 142,220	\$ -	\$ -	\$ -	\$ -	\$ 142,220	
Charter contracts	-	7,765	16,470	19,413	93,399	137,047	
Covenant not-to-compete	20,000	-	-	-	-	20,000	
	<u>\$ 162,220</u>	<u>\$ 7,765</u>	<u>\$ 16,470</u>	<u>\$ 19,413</u>	<u>\$ 93,399</u>	<u>\$ 299,267</u>	

The weighted average remaining amortization period of the covenant-not-to-compete and charter contracts is approximately 10.5 years, and the following is the estimated aggregate amortization expense for the next five years:

2022	\$ 157,047
2023	157,047
2024	157,047
2025	157,047
2026	157,047
Thereafter	<u>418,715</u>
<i>Estimated aggregate amortization expense</i>	<u><u>\$ 1,203,950</u></u>

### **REVENUE RECOGNITION**

Revenue consists primarily of equalization payments from the State of Arizona. Equalization payments are based on the number of students enrolled as calculated in accordance with requirements of the Arizona Department of Education (“ADE”). The ADE pays the Organization monthly based on student counts and the Organization’s proration of the annual calculated funding amount. Equalization payments are subject to recalculation adjustments annually.

The Academies also receive Classroom Site Fund (“CSF”) revenue from the State of Arizona. CSF payments are based on the number of students enrolled as calculated in accordance with the requirements of the ADE.

ASC 606 requires revenues to be recognized when performance obligations are satisfied by transferring goods or services promised in a contract, in an amount that reflects the consideration that the Organization expects to receive in exchange for those goods or services. The Organization’s performance obligation is to provide education to students and, accordingly, revenue is recognized over the school year as the education is provided. In the event payments received during the year exceed ADE’s final recalculation of the Organization’s calculated funding amount, the excess is recorded as a liability to the state.

Mountain Rose Academy, Inc., Desert Rose Academy, Inc. and Canyon Rose Academy, Inc. contracted with the Arizona State Board of Charter Schools to operate charter schools under 20-year contracts that expire in 2033, 2035 and 2037, respectively. Pima Rose Academy, Inc. operates its charter school under a similar 15-year contract that expires in 2026. Each contract is subject to renewal at the request of the Academies and subject to approval by the Arizona State Board of Charter Schools. Continuation of each contract is dependent upon continued appropriation of funding by the State of Arizona and continuation of the Arizona charter school system. Continued operation of the Academies is dependent upon this funding.

### **INCOME TAXES**

The shareholders of the Organization have elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. No provision for federal income taxes has been recorded in these financial statements because the shareholders are responsible for such taxes on their individual income tax returns.

Accounting principles generally accepted in the United States of America clarify the accounting for uncertainty in income taxes by creating a framework to recognize, measure, present, and disclose in financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. The Organization’s management believes that there are no material uncertain tax positions for which it is reasonably possible that reported total amounts could significantly differ from amounts that may be determined upon examination by taxing authorities. The Organization is no longer subject to federal tax examinations for years before 2017 and state tax examinations by tax authorities for years before 2016, unless specific conditions are met.

### **ADVERTISING**

The Organization’s policy is to expense advertising costs as the costs are incurred. Advertising expense was \$195,042 for the year ended June 30, 2021.

**NOTE C. ACCOUNTS RECEIVABLE**

Accounts receivable balance consists of monies due to the Organization from the State of Arizona for Classroom Site Funds, Instructional Improvement Funds, and equalization payments. Balance is subject to use restrictions in accordance with Arizona Revised Statutes §15-977 and §15-979. Due to the nature of these receivables and prior payment history, no allowance for doubtful accounts has been recorded.

The beginning and ending balances in accounts receivable are as follows:

<u>July 01, 2020</u>	<u>June 30, 2021</u>
\$ 100,719	\$ 9,103

**NOTE D. CONCENTRATIONS**

Financial instruments that subject the Organization to concentrations of credit risk consist primarily of cash equivalents, accounts receivable and notes receivable. The total loss that would occur if the accounts became uncollectible is the stated balance reported in the accompanying consolidated and combining balance sheet.

The Organization places its cash with various credit institutions. At times, such cash balances may be in excess of the FDIC insurance limits; however, management does not believe it is exposed to any significant credit risk on cash.

For the year ended June 30, 2021, the Organization received 90% of its revenues through equalization payments received from the State of Arizona Department of Education.

**NOTE E. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2021 consisted of the following:

Land	\$ 146,062
Building	475,085
Building improvements	611,472
Office and school leasehold improvements	61,418
Furniture and equipment	666,803
Vehicles	45,152
Software	22,001
Less accumulated depreciation	<u>(259,255)</u>
<b><i>Net property and equipment</i></b>	<b><u><u>\$ 1,768,738</u></u></b>

Depreciation expense for the year ended June 30, 2021 was \$261,364.

**NOTE F. DUE FROM (TO) RELATED PARTIES**

In the ordinary course of business, the Organization advances amounts to affiliates, as well as shareholders, and pays tax liabilities on behalf of the shareholders. As of June 30, 2021, and the Organization is owed \$27,000 from shareholders and affiliates. Additionally, the Organization owes amounts to current shareholders totaling \$21,351. Amounts due to and from shareholders are generally settled in future periods in conjunction with the Organizations' assessment of its calendar year distributions. Upon shareholder buyout, the final purchase price would reflect settlement of any unpaid receivable or payable.

**NOTE G. NOTES PAYABLE TO RELATED PARTIES AND BUYOUT AGREEMENTS****ACQUISITION OF ROSE DEVELOPMENT GROUP, LLC**

During the year ended June 30, 2018, the Organization executed promissory notes (the "RDG Notes") to current and former shareholders of the Organization totaling \$1,500,000, in connection with the acquisition of Rose Development Group, LLC. The notes expire in September and October of 2023, bear interest at 2.25% per annum and call for monthly payments of \$21,284. The balance of these notes was \$573,162 as of June 30, 2021.

**FISCAL YEAR 2019 BUYOUT AGREEMENT**

During November 2018, the Organization entered into a buyout agreement ("FY19 Buyout Agreement") to purchase all of the shares of one shareholder in exchange for a 20-year promissory note. The total price for the repurchase of the shares was \$621,263. After considering \$30,699 of amounts payable by the shareholder for advances made by the Organization, the transaction resulted in a total note payable to the shareholder of \$590,564. The Organization estimated the value of the repurchased shares based on the share price determined in an agreement to purchase shares between shareholders which occurred in January 2017. The note bears interest at 3.22% annually and calls for monthly payments of \$6,046 until the balance is paid off or until November 2028, the maturity date of the note. As of June 30, 2021, the balance of the note payable to the former shareholder was \$473,337.

**FISCAL YEAR 2021 BUYOUT AGREEMENT**

Effective July 1, 2020, the Organization entered into a buyout agreement ("FY21 Buyout Agreement"). As part of the FY21 Buyout Agreement, the Organization re-purchased a sufficient number of shares for an existing shareholder to obtain control. As a result of the change in control of the Organization, the transaction was recorded as a reverse acquisition and the Organization's assets and liabilities were adjusted to their fair values as of the acquisition date. The total price for the re-purchase of the shares was \$3,910,000, which was allocated based on a third-party appraisal and management estimates. The transaction resulted in recognition of goodwill in the amount of \$1,275,720 and recognition of charter contracts in the School Corporations totaling \$1,221,000, which was calculated as the excess of the consideration transferred over the value of the assets. The following summarizes the fair value and amounts recognized for each major class of consideration acquired and liabilities incurred in the reverse acquisition, and represents non-cash investing and financing activities:

Cash	\$ 2,446,660
Prepaid expenses	37,835
Accounts receivable	100,719
Land, property and equipment	2,004,670
Cash surrender value of life insurance	157,455
Intangible assets	242,507
Notes receivable from related parties	741,897
Due to related parties	(109,330)
Accounts payable and accrued expenses	(341,581)
Deferred rent payable	(231,035)
Notes payable	(509,732)
Notes payable to related parties	(1,342,403)

The FY21 Buyout Agreement was executed to purchase all of the shares of two shareholders in exchange for a promissory note in the amount of \$3,733,567 and satisfaction advances and payables due to and from the shareholders. The promissory note bears interest at 3% annually with principal payments of \$200,000 to be made on July 1, 2020 and August 1, 2020. Commencing on September 1, 2020, the balance of the loan shall be paid in 113 monthly installments of principal and interest, with all unpaid principal and interest due at maturity on January 1, 2030. As of June 30, 2021, the balance of the note payable to the former shareholders was \$3,115,521.

### ***SCHEDULED FUTURE PAYMENTS***

A summary of scheduled future payments on the buyout agreements and the RDG Notes classified as notes payable to related parties are as follows as of June 30:

2022	\$ 583,031
2023	599,014
2024	436,692
2025	419,633
2026	457,622
Thereafter	<u>1,666,028</u>
<b><i>Total notes payable to related parties</i></b>	<b>4,162,020</b>
Current portion of notes payable to related parties	<u>(583,031)</u>
<b><i>Long-term portion of notes payable to related parties</i></b>	<b><u>\$ 3,578,989</u></b>

**NOTE H. NOTES PAYABLE AND LINE OF CREDIT**

Notes payable and line of credit consisted of the following at June 30, 2021:

Note payable to bank due in monthly installments of \$5,128 including interest at 5.75% per annum, maturing in May 2022. The Note is collateralized by the Organization's accounts, general intangibles, and equipment and is generally subject to a prepayment penalty between 1% and 5%, as more fully described in the corresponding agreement.	\$ 54,690
Note payable to Rowe Enterprises, Inc. due in monthly installments of \$933 including interest at 5.35% per annum, maturing in September 2024, and collateralized by a vehicle with a carrying value of \$26,971.	33,340
Note payable to bank under a revolving line of credit agreement in the amount of \$400,000, due in interest-only monthly payments. The Note was modified in June 2020 to bear interest at the prime rate plus 0.75%. (prime rate on June 30, 2021 was 3.25%) and calls for monthly payments beginning July 2020, of the greater of \$100 or 1% of the unpaid principal balance plus accrued interest. The bank's obligation to make revolving advances terminates at the earlier of June 2025 or upon written notice to the Organization and the agreement converts to a term note. After conversion to a term note, monthly payments are due in an amount equal to the greater of \$250 or 1.67% of the unpaid principal balance plus accrued interest. The line of credit is guaranteed by the Organization's accounts, general intangibles and equipment and is personally guaranteed by two shareholders of the Organization.	-
Note payable to bank due in monthly installments of \$8,786, including interest, at 5.40% per annum, maturing in July 2023, collateralized by the Organization's accounts, general intangibles and equipment. The agreement also includes provisions for prepayment penalties between 1% and 5%, more fully described in the corresponding agreement.	207,120
Note payable to bank due in monthly installments of \$2,212, including interest, at 3.95% per annum, maturing in July 2021, collateralized by certain financed equipment with a carrying value of \$15,367.	2,141
Note payable to bank due in monthly installments of \$1,124, including interest, at 5.25% per annum, maturing in October 2022, collateralized by certain financed equipment with a carrying value of \$14,806.	17,295
<b>Total</b>	<u>314,586</u>
Less current portion of notes payable	<u>(176,012)</u>
<b>Long-term portion of notes payable</b>	<u><u>\$ 138,574</u></u>

The summary of annual maturities are as follows as of June 30:

2022	\$	176,012
2023		116,614
2024		19,186
2025		2,774
	\$	<u>314,586</u>

In addition to the unused line of credit agreement previously described, the Organization has agreements with several credit card companies and as of June 30, 2021, maximum unused available credit to the Organization was \$354,761. As of June 30, 2021, draws against the credit cards totaled \$2,739 and are included in accounts payable and accrued expenses in the accompanying consolidated and combining balance sheet.

## NOTE I. OPERATING LEASES

### REAL PROPERTY LEASES

The Organization has operating leases for four out of the five school sites and the administrative office. Rental expense for the leases was \$1,338,192 for the year ended June 30, 2021. The leases require monthly base rent payments which are subject to periodic rent increases through the term of the lease as well as common area maintenance expense payments.

Lease expiration dates range from December 2021 to July 2031. The recorded rent expense includes charges for common area maintenance and property taxes of \$330,762 and an adjustment of \$19,041 for recognition of rent expense on a straight-line basis.

The lease for Pima Rose Academy, Inc.'s school site is with Mission Rose Development, LLC ("MRD"), a related party. The lease requires monthly base rent and common area maintenance expense payments. The lease has scheduled periodic rent increases through the term of the lease and will terminate in July 2031.

As of June 30, 2021, annual scheduled base rents for the schools were as follows:

Mountain Rose Academy	\$	267,177
Desert Rose Academy		119,700
Pima Rose Academy		350,199
Canyon Rose Academies		382,269

Future minimum lease payments, not including common area maintenance and property taxes, under the school site operating leases for the remaining terms in excess of one year are as follows as of June 30:

2022	\$	1,331,689
2023		1,036,468
2024		980,294
2025		987,726
2026		1,002,365
Thereafter		<u>3,714,657</u>
<b>Total future minimum real property lease payments</b>	\$	<u><u>9,053,199</u></u>

**EQUIPMENT AND SERVICE LEASES**

The Organization has entered into a lease agreement to pay for equipment leasing, copies, supplies, and services, which calls for 60 monthly payments of \$3,467, commencing in August 2019 and ending in July 2024.

Additionally, the Organization entered into an agreement that included 36 monthly payments of \$10,052 for cloud computing services and internet access through July 2021. In June 2020, the agreement was modified to increase clouds computing services storage, increase monthly payments to \$11,386 and extend access through June 2023.

Future minimum lease payments under the operating equipment and service leases for the remaining terms in excess of one year are as follow as of June 30:

2022	\$	178,236
2023		178,236
2024		41,604
2025		3,467
<b>Total future minimum equipment and service lease payments</b>	<b>\$</b>	<b>401,543</b>

**NOTE J. COMPLIANCE**

The Organization's compliance with certain laws and regulations is subject to review by the State of Arizona and the Arizona State Board for Charter Schools. Although such reviews could result in a reduction of state equalization assistance, in the opinion of the Organization's management, any required reductions are not expected to be significant.

**NOTE K. RETIREMENT PLAN****PLAN DESCRIPTION**

Substantially all permanent full-time and certain part-time employees of the Academies are eligible to contribute to a cost-sharing, multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (the "System"). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, Phoenix, AZ 85012-0250 or by calling (602) 240-2000 or (800) 621-3778.

**FUNDING POLICY**

The Arizona State Legislature establishes and may amend active plan members' and the Organization's contribution rate. For the year ended June 30, 2021, active plan members and the Organization were each required by statute to contribute at the actuarially determined rate of 12.22% (12.04% retirement and 0.18% long-term disability) of the members' annual covered payroll. The Organization's contributions to the System for the year ended June 30, 2021 were \$225,360 which was equal to the required contributions for the year.

**NOTE L. BUY-SELL AGREEMENT**

In July 2004, the Organization and the shareholders entered into a buy-sell agreement (the “Agreement”), with subsequent amendments, which requires that the Organization be allowed to repurchase the shares of a shareholder upon the death or termination of the employment of a shareholder or upon certain other events as defined by the Agreement. Concurrent with the execution of the Agreement, the Organization purchased life insurance policies on the current and previous shareholders with a total face value of \$11,480,000, which has been subsequently amended to \$13,500,000. The Organization is the named beneficiary, with the proceeds to serve as a resource to re-purchase the shares of the respective shareholder or to be retained by the Organization in the event the insurance proceeds exceed the share redemption cost. In conjunction with the fiscal year 2021 repurchase transaction, as more fully described in Note G, the policies now cover the current shareholders in the amount of \$10,000,000, with the remaining \$3,500,000 covering former shareholders and current directors of the Organization. Premiums paid for the year ended June 30, 2021 totaled \$59,016. The total cash surrender value as of June 30, 2021 was \$117,725. From time-to-time, the Organization has borrowed against the cash surrender value of the life insurance policies and advanced these funds to certain shareholders. As of June 30, 2021, there were no outstanding loans against the cash surrender value of the life insurance. During October 2017, the Agreement was modified to define the proceeds due to the Organization under the insurance policies as the death benefit, less any outstanding loans taken out by the deceased shareholder. Management has determined that there is minimal off-balance-sheet risk as the total face value exceeds the total share repurchase in the event the buy-sell agreement was triggered at the financial statement date.

**NOTE M. NOTE RECEIVABLE FROM SHAREHOLDER**

During June of 2020, a shareholder signed a promissory note to the Organization for \$489,261. The note bears interest at 0.43% per annum and calls for interest-only payments annually. All unpaid principal and interest are due June 30, 2024. During the year ended June 30, 2021, the shareholder borrowed an additional \$91,926. The balance of the note receivable from shareholder was \$546,650 as of June 30, 2021.

**NOTE N. COMMITMENTS AND CONTINGENCIES**

The Organization is involved from time-to-time in various claims and legal actions in the ordinary course of business. Management does not believe that the impact of such matters will have a material adverse effect on the Organization’s financial position or results of operations when resolved.

In December 2018, the Organization entered into a diversification and marketing consulting agreement with A More Perfect Union Inc. (“AMPU”), a consulting company, whereby AMPU is to provide the Organization with marketing and consulting services for developing a plan to expand and diversify the Organizations’ methodologies to other entities seeking to offer educational services. The agreement calls for an initial payment of \$30,000 and 31 subsequent payments of \$10,000 per month, due at the first of each month. The agreement is cancelable only upon the service provider’s death or physical disability and inability to perform the services under this agreement. Additionally, the agreement calls for reimbursement of out-of-pocket expenses incurred by AMPU in performance of the services under this agreement. Professional services expense incurred under this agreement for the year ended June 30, 2021 was \$120,000, and total future monthly payments for this agreement are approximately \$20,000 in 2022.

**NOTE O. SUBSEQUENT EVENTS**

The preparation of financial statements to conform with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events were evaluated when determining whether adjustment or disclosure in the financial statements is required. The Organization evaluated subsequent events through November 5, 2021, which represents the date the accompanying financial statements were available to be issued.

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## SUPPLEMENTAL SCHEDULES

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**SUPPLEMENTAL SCHEDULE OF CASH FLOWS – DESERT ROSE ACADEMY, INC.**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<i>NET INCOME</i>	\$ 35,052
<i>ADJUSTMENTS TO RECONCILE NET INCOME TO</i>	
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Amortization of charter contract	7,765
<i>CHANGES IN OPERATING ASSETS AND LIABILITIES:</i>	
Accounts receivable	11,917
Accounts payable and accrued expenses	6,770
Intercompany payable	(123,930)
Deferred rent payable	4,750
	<hr/>
<i>Total net cash used in operating activities</i>	<i>(57,676)</i>
<i>NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</i>	<i>(57,676)</i>
Cash, cash equivalents, and restricted cash at beginning of year	404,149
	<hr/>
<i>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</i>	<i>\$ 346,473</i>
	<hr/> <hr/>

**SUPPLEMENTAL SCHEDULE OF CASH FLOWS – MOUNTAIN ROSE ACADEMY, INC.**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<i>NET INCOME</i>	\$ 120,429
<i>ADJUSTMENTS TO RECONCILE NET INCOME TO</i>	
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Amortization of charter contract	16,470
<i>CHANGES IN OPERATING ASSETS AND LIABILITIES:</i>	
Accounts receivable	19,881
Accounts payable and accrued expenses	2,804
Intercompany payable	(119,549)
Deferred rent payable	(16,766)
	<hr/>
<i>Total net cash provided by operating activities</i>	<i>23,269</i>
<i>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</i>	<i>23,269</i>
Cash, cash equivalents, and restricted cash at beginning of year	470,413
	<hr/>
<i>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</i>	<i>\$ 493,682</i>
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**SUPPLEMENTAL SCHEDULE OF CASH FLOWS – CANYON ROSE ACADEMY, INC.**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<i>NET INCOME</i>	\$ 271,981
<i>ADJUSTMENTS TO RECONCILE NET INCOME TO</i>	
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Amortization of charter contract	19,413
<i>CHANGES IN OPERATING ASSETS AND LIABILITIES:</i>	
Accounts receivable	31,445
Accounts payable and accrued expenses	(2,099)
Intercompany payable	(118,447)
Deferred rent payable	(10,360)
	<hr/>
<i>Total net cash provided by operating activities</i>	191,933
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<i>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</i>	191,933
Cash, cash equivalents, and restricted cash at beginning of year	488,139
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<i>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</i>	\$ 680,072
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**SUPPLEMENTAL SCHEDULE OF CASH FLOWS – PIMA ROSE ACADEMY, INC.**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<i>NET INCOME</i>	\$ 211,394
<i>ADJUSTMENTS TO RECONCILE NET INCOME TO</i>	
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Amortization of charter contract	93,399
<i>CHANGES IN OPERATING ASSETS AND LIABILITIES:</i>	
Accounts receivable	28,373
Accounts payable and accrued expenses	(7,706)
Intercompany payable	(126,499)
Deferred rent payable	23,120
	<hr/>
<i>Total net cash provided by operating activities</i>	222,081
	<hr/>
<i>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</i>	222,081
Cash, cash equivalents, and restricted cash at beginning of year	616,995
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<i>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</i>	\$ 839,076
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS

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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

Board of Directors  
Rose Management Group, Inc.  
Desert Rose Academy, Inc.  
Mountain Rose Academy, Inc.  
Canyon Rose Academy, Inc.  
Pima Rose Academy, Inc.  
Tucson, Arizona

We have audited, in accordance with the 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 consolidated and combined financial statements of Rose Management Group, Inc. (an S corporation) and wholly owned subsidiary, Rose Development Group, LLC; Desert Rose Academy, Inc. (an S corporation); Mountain Rose Academy, Inc. (an S corporation); Canyon Rose Academy, Inc. (an S corporation); and Pima Rose Academy, Inc. (an S corporation) (collectively, the "Organization"), which comprise the consolidated and combining balance sheet as of June 30, 2021, and the related consolidated and combining statement of activities and consolidated and combined statements of changes in shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements, and have issued our report thereon dated November 5, 2021.

### Internal Control over Financial Reporting

In planning and performing our audit of the consolidated and combined financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated and combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 Organization's consolidated and combined financial statements are free of 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*R&A CPA*

*A Professional Corporation*

Tucson, Arizona

November 5, 2021