

**Espiritu Community Development Corporation
and Espiritu Schools
(Nonprofit corporations)**

Combined Financial Statements

Years ended June 30, 2021 and 2020

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1-2
 Financial Section	
Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statements of Functional Expenses.....	5-6
Combined Statements of Cash Flows	7-8
Notes to Combined Financial Statements	9-19
 Supplemental Information	
Combining Statements of Financial Position.....	20
Combining Statements of Activities	21
 Other Reports	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22-23
Schedule of Findings.....	24

Independent Auditor's Report

Board of Directors
Espiritu Community Development Corporation
and Espiritu Schools

We have audited the accompanying combined financial statements of Espiritu Community Development Corporation and Espiritu Schools (nonprofit organizations), which comprise the combined statements of financial position as of June 30, 2021 and 2020, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Espiritu Community Development Corporation and Espiritu Schools as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position and combining statements of activities are presented for purposes of additional analysis and are not a required part of the 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the 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 March 30, 2022, on our consideration of Espiritu Community Development Corporation and Espiritu Schools' internal control over financial reporting and on our tests of their 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 Espiritu Community Development Corporation and Espiritu School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Espiritu Community Development Corporation and Espiritu School's internal control over financial reporting and compliance.

Walker & Armstrong, LLP

Phoenix, Arizona
March 30, 2022

**Espiritu Community Development Corporation
and Espiritu Schools
Combined Statements of Financial Position
June 30, 2021 and 2020**

Assets	2021	2020
Current Assets		
Cash and cash equivalents	\$ 2,516,168	\$ 2,278,202
Marketable securities	1,063	1,063
Grants receivable	664,306	664,456
Prepaid rent	120,000	120,000
Employee advances	8,592	8,192
Total current assets	3,310,129	3,071,913
Property and Equipment, net	4,953,573	5,033,274
Restricted Cash	449,348	474,883
Restricted Investments	1,121,972	1,158,666
Other Assets		
Prepaid rent	266,474	386,474
Security deposit	150,000	150,000
Total other assets	416,474	536,474
Total assets	<u>\$ 10,251,496</u>	<u>\$ 10,275,210</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 324,908	\$ 613,217
Accrued liabilities	264,827	241,805
Interest payable	192,188	198,438
Current portion of deferred rent	39,459	39,459
Current portion of long-term debt	216,674	228,314
Total current liabilities	1,038,056	1,321,233
Long-Term Liabilities, less current maturities		
Deferred rent	82,206	121,665
Bonds payable	5,418,619	5,594,639
Notes payable	313,126	896,866
Accrued liabilities	262,950	292,950
Total liabilities	7,114,957	8,227,353
Net Assets		
Without donor restrictions	3,136,539	2,047,857
Total net assets	3,136,539	2,047,857
Total liabilities and net assets	<u>\$ 10,251,496</u>	<u>\$ 10,275,210</u>

The accompanying notes are an integral part of these financial statements.

**Espiritu Community Development Corporation
and Espiritu Schools
Combined Statement of Activities
Years ended June 30, 2021 and 2020**

	2021	2020
Without Donor Restrictions:		
Operating Revenue and Support		
State aid	\$ 7,393,536	\$ 7,729,766
Federal funding	1,678,312	1,014,444
Other grants	-	123,125
Food service program	2,615,901	1,741,162
Contributions	11,324	6,540
Miscellaneous	89,319	62,249
Day care	910	23,628
Fundraising	855	2,133
Investment income	1,105	10,048
Paycheck Protection Plan loan forgiveness	756,354	-
Total operating revenue and support	12,547,616	10,713,095
Operating Expenses		
<i>Program Services</i>		
Elementary school	4,369,313	4,660,745
College preparatory	5,336,931	4,577,857
Total program services	9,706,244	9,238,602
<i>Supporting Services</i>		
Management and general	1,752,690	1,052,784
Total operating expenses	11,458,934	10,291,386
Change in net assets	1,088,682	421,709
Net assets, beginning of year	2,047,857	1,626,148
Net assets, end of year	\$ 3,136,539	\$ 2,047,857

The accompanying notes are an integral part of these financial statements.

**Espiritu Community Development Corporation
and Espiritu Schools
Combined Statement of Functional Expenses
Year ended June 30, 2021**

	<u>Program Services</u>		<u>Supporting Services</u>	Total Functional Expenses
	<u>Elementary School</u>	<u>College Preparatory</u>	<u>Management and General</u>	
Salaries and wages	\$ 1,517,845	\$ 1,471,631	\$ 647,203	\$ 3,636,679
Health insurance	100,837	78,532	35,442	214,811
Payroll taxes	144,374	138,661	214,365	497,400
Retirement contribution	172,129	117,958	5,031	295,118
Total salaries and related	1,935,185	1,806,782	902,041	4,644,008
Rent	469,126	1,204,710	-	1,673,836
Contracted services	752,883	695,834	180,667	1,629,384
Travel and transportation	3,972	11,962	3,994	19,928
Instructional aids	15,717	58,542	17,626	91,885
Utilities	116,535	89,841	28,196	234,572
Insurance	63,461	62,015	-	125,476
Repair and maintenance	42,867	80,540	26,844	150,251
Communications	24,001	19,832	3,253	47,086
Interest	192,188	192,188	1,375	385,751
Supplies and printing	225,238	435,359	68,732	729,329
Food purchases	321,301	472,174	485,129	1,278,604
Other	2,667	2,980	11,746	17,393
Total functional expenses before depreciation and amortization	4,165,141	5,132,759	1,729,603	11,027,503
Depreciation and amortization	204,172	204,172	23,087	431,431
Total functional expenses	<u>\$ 4,369,313</u>	<u>\$ 5,336,931</u>	<u>\$ 1,752,690</u>	<u>\$ 11,458,934</u>

The accompanying notes are an integral part of these financial statements.

**Espiritu Community Development Corporation
and Espiritu Schools
Combined Statement of Functional Expenses
Year ended June 30, 2020**

	<u>Program Services</u>		<u>Supporting Services</u>	Total Functional Expenses
	<u>Elementary School</u>	<u>College Preparatory</u>	<u>Management and General</u>	
Salaries and wages	\$ 1,545,675	\$ 1,102,843	\$ 550,587	\$ 3,199,105
Health insurance	130,672	84,430	33,522	248,624
Payroll taxes	139,477	104,592	174,820	418,889
Retirement contribution	<u>133,972</u>	<u>197,564</u>	<u>8,616</u>	<u>340,152</u>
Total salaries and related	1,949,796	1,489,429	767,545	4,206,770
Rent	474,000	1,199,836	-	1,673,836
Contracted services	770,264	753,929	162,240	1,686,433
Travel and transportation	6,888	12,715	10,048	29,651
Instructional aids	6,734	44,054	-	50,788
Utilities	143,831	79,664	10,885	234,380
Insurance	50,643	49,223	-	99,866
Repair and maintenance	32,133	60,753	17,942	110,828
Communications	16,018	11,486	9,904	37,408
Interest	198,438	198,438	9,158	406,034
Supplies and printing	85,451	292,191	12,598	390,240
Food purchases	717,213	166,155	13,566	896,934
Other	2,235	12,883	8,293	23,411
Loss on disposal of assets	<u>-</u>	<u>-</u>	<u>3,818</u>	<u>3,818</u>
Total functional expenses before depreciation and amortization	4,453,644	4,370,756	1,025,997	9,850,397
Depreciation and amortization	<u>207,101</u>	<u>207,101</u>	<u>26,787</u>	<u>440,989</u>
Total functional expenses	<u>\$ 4,660,745</u>	<u>\$ 4,577,857</u>	<u>\$ 1,052,784</u>	<u>\$ 10,291,386</u>

The accompanying notes are an integral part of these financial statements.

**Espiritu Community Development Corporation
and Espiritu Schools
Combined Statements of Cash Flows
Years ended June 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Cash received from education equalization and grantor agencies	\$ 11,785,607	\$ 10,864,969
Cash received for Paycheck Protection Plan loan	175,974	-
Interest income received	1,105	10,048
Cash paid to vendors and employees	(10,856,898)	(9,144,549)
Interest paid	(392,001)	(411,815)
Net cash provided by operating activities	713,787	1,318,653
Cash flows from investing activities:		
Purchase of equipment	(317,750)	(214,178)
Proceeds from sale of property and equipment	4,700	-
Net cash used for investing activities	(313,050)	(214,178)
Cash flows from financing activities:		
Decrease (increase) in restricted investments	36,694	(63,067)
Advances on line of credit	-	100,000
Payments on line of credit	-	(120,000)
Proceeds from notes payable	-	900,180
Principal payments on long-term debt	(225,000)	(210,000)
Net cash (used for) provided by financing activities	(188,306)	607,113
Net increase in cash	212,431	1,711,588
Cash and cash equivalents, beginning of year	2,753,085	1,041,497
Cash and cash equivalents, end of year	\$ 2,965,516	\$ 2,753,085
Cash and Cash Equivalents consist of:		
Cash and cash equivalents	\$ 2,516,168	\$ 2,278,202
Restricted cash	449,348	474,883
	\$ 2,965,516	\$ 2,753,085

The accompanying notes are an integral part of these financial statements.

**Espiritu Community Development Corporation
and Espiritu Schools
Combined Statements of Cash Flows - Continued
Years ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 1,088,682	\$ 421,709
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	431,431	440,989
(Gain) loss on disposal of capital assets	(4,700)	3,818
Paycheck Protection Plan loan forgiveness	(580,380)	-
 (Increase) decrease in assets:		
Grants receivable	150	161,922
Prepaid rent	120,000	120,000
Employee advances	(400)	(2,500)
Increase (decrease) in liabilities:		
Accounts payable	(288,309)	(37,269)
Accrued liabilities	(6,978)	255,224
Interest payable	(6,250)	(5,781)
Deferred rent	(39,459)	(39,459)
 Net cash provided by operating activities	 <u>\$ 713,787</u>	 <u>\$ 1,318,653</u>

The accompanying notes are an integral part of these financial statements.

Espiritu Community Development Corporation and Espiritu Schools
Notes to Combined Financial Statements
Years ended June 30, 2021 and 2020

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Organization Purpose - Espiritu Community Development Corporation and Espiritu Schools (collectively referred to as the “School”) are Arizona not-for-profit corporations. The School’s purpose is to provide a unique educational approach and a quality education to students in pre-school through twelfth grade. The School has two campuses located in Phoenix, Arizona and provides economic development to low-income neighborhoods within proximity to their campus.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying combined financial statements follows:

Implementation of New Accounting Guidance - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The School adopted the new guidance effective July 1, 2020, on a retrospective basis.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*. The update clarifies and improves the scope and accounting guidance for contributions received and made to improve consistency in reporting among organizations. The clarification provides guidance to organizations for determining whether revenues are contributions or exchange transactions. The School adopted the new guidance effective July 1, 2020, on a retrospective basis.

Analysis of various provisions of these standards resulted in no changes in the way the School recognizes revenue, and therefore no changes to the previously issued financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Combined Financial Statements - The combined financial statements include the accounts of Espiritu Community Development Corporation and Espiritu Schools. All significant inter-organization transactions and account balances incurred under a services agreement have been eliminated.

Basis of Accounting and Presentation - The School’s combined financial statements have been prepared on the accrual basis of accounting and are presented in accordance with U.S. generally accepted accounting principles. Revenues and expenses are recognized and recorded when earned or incurred. The School reports information regarding the combined financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. The School has no net assets with donor restrictions.

Notes to Combined Financial Statements - Continued

Note 1 – Nature of Activities and Summary of Significant Accounting Policies - Continued

Net Assets Without Donor Restrictions - Net assets without donor restrictions are those currently available at the discretion of the board of directors for use in the School's operations, in accordance with its bylaws. The School reports its revenue and other support as without donor restrictions if there are no donor-imposed restrictions which limit its use.

Net Assets With Donor Restrictions - The School reports grants and contributions as with donor restrictions if received with grantor/donor-imposed stipulations that limit the use of the amount received. When the grantor/donor-imposed restrictions expire, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and, reported in the combined statement of activities as net assets released from restrictions. The School consistently uses a policy of reporting revenues received and released from restrictions within the same fiscal year as changes in net assets without donor restrictions.

Cash and Cash Equivalents - Cash and cash equivalents consist primarily of checking accounts and money market funds. For purposes of the statement of cash flows, all highly liquid securities purchased with an original maturity of three months or less are considered to be cash equivalents.

Investments - Investments consist of marketable securities recorded at fair value.

Receivables - Receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts is not considered necessary.

Property and Equipment - Purchased property and equipment are stated at cost and donated property and equipment are recorded at estimated fair value at the date of gift to the School. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Outlays for routine repairs and maintenance are charged to operations as incurred. Outlays, which substantially extend the useful life of an asset, are capitalized. Betterments and renewals costing \$3,000 or more are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation and amortization are provided using the straight-line method over the following useful lives:

Buildings and building improvements	5 - 40 years
Furniture and equipment	3 - 39 years
Vehicles	5 - 10 years

Impairment of Long-lived Assets - The School reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to recognize is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses for the years ended June 30, 2021 and 2020.

Notes to Combined Financial Statements - Continued

Note 1 – Nature of Activities and Summary of Significant Accounting Policies - Continued

Deferred Rent - The School was offered rent enticement in the form of 12-months of rent abatement (e.g. free rent) as part of its lease agreement dated August 1, 2014, for the Spirit Mission education facility. To account for the lease payments consistently over the 10-year life of the lease, the School records the difference between actual and straight-line payments as deferred rent. As of June 30, 2021 and 2020, the deferred rent liability was \$121,665 and \$161,124, respectively.

Bond Issuance Costs - The School incurred \$1,146,348 in bond issuance costs which are being amortized on a straight-line basis over the life of the bonds which fully retire in 2036. The School amortized \$38,212 of bond issuance cost for each of the years ended June 30, 2021 and 2020, which is reported as depreciation and amortization. The unamortized balance was \$589,095 and \$627,307 as of June 30, 2021 and 2020, respectively.

Revenue Recognition - State aid consists of funding from the State of Arizona and is administered by the Arizona Department of Education. State aid is considered a conditional contribution and is primarily comprised of:

- (1) Equalization funding is provided to fund regular school operations and is based on student counts. Funding is provided on a monthly basis and is recognized as revenue in that month.
- (2) Classroom Site Fund (CSF) is to provide support for teacher compensation, including a base pay and performance pay component as well as maintenance and operations. Beginning in fiscal year 2022, amounts may also be used for student support services. CSF is recognized as revenue as funds are received.
- (3) Results-Based Funding is to incentivize schools to improve education by providing additional funding based various performance measures. Funding is calculated based on the previous year's results and is recognized as revenue when received. Future funding is dependent on future academic results.

Federal funding comes from various government agencies and pass-through entities. Federal funds are generally received on a cost reimbursement basis or unit-based calculation and accordingly, revenues are recognized as qualifying expenses are incurred or as units are provided.

Amounts the School receives in advance for which conditions have not been met as of the statement of financial position date are reported as deferred revenue until the condition has been met at which time deferred revenue is reduced and revenue is recognized.

Contributions - Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Unconditional promises to give with due dates in excess of one year are recorded at the net present value in the year the promise is made and are considered donor restricted.

Notes to Combined Financial Statements - Continued

Note 1 – Nature of Activities and Summary of Significant Accounting Policies - Continued

Donated Materials and Services - Donated materials and services are reflected as contributions in the accompanying combined financial statements at their estimated values at the date of receipt. No amounts have been reflected in the combined financial statements for certain donated volunteer non-professional services because no objective basis is available to measure the value of such services; however, volunteers have donated significant amounts of their time in the School's program services.

Income Taxes - Espiritu Community Development Corporation and Espiritu Schools qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and therefore, there is no provision for income taxes.

Expense Allocations - Expenses are charged to program and supporting services based on direct expenditures incurred. Salaries and related costs are allocated based on time and effort. Rent is allocated based on square footage and utilities are expensed based upon meter location. Depreciation and bond interest expense are allocated equally among program services, with the interest allocation considering administrative factors. Expenditures not directly chargeable are allocated based on a pro rate share of personnel activity.

Use of Estimates - The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Liquidity

The School's financial assets available within one year of the date of the combined statement of financial position for general expenditures as of June 30, 2021 and 2020, are as follows:

	2021	2020
Cash and cash equivalents	\$ 2,516,168	\$ 2,278,202
Marketable securities	1,063	1,063
Grants receivable	664,306	664,456
Employee advances	8,592	8,192
	<u>\$ 3,190,129</u>	<u>\$ 2,951,913</u>

As part of its liquidity policy, management structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, most expenses are directly related to educational program services which are directly supported by revenue from federal and state grants. The School's liquidity increased \$238,216 (8%) from 2020 to 2021, mostly due to the receipt of additional federal funding during the year. In addition, the School has two lines of credit totaling \$250,000, which could be drawn upon in the event of unanticipated liquidity needs.

Notes to Combined Financial Statements - Continued

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2021 and 2020, consist of the following:

	2021	2020
Bank checking accounts	\$ 2,514,015	\$ 2,276,049
Money market funds	2,153	2,153
Total unrestricted cash and cash equivalents	2,516,168	2,278,202
Restricted cash	449,348	474,883
Total cash and cash equivalents	\$ 2,965,516	\$ 2,753,085

Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2021, the School had bank balances in excess of the FDIC limit of \$2,608,783. In the case of deposits, there is custodial risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a policy in place for minimizing custodial risk.

Note 4 – Property and Equipment

Property and equipment consist of the following as of June 30, 2021 and 2020:

	2021	2020
Buildings and building improvements	\$ 7,924,203	\$ 7,793,994
Furniture and equipment	1,754,540	1,718,187
Vehicles	264,207	185,909
Leasehold improvements - NFL Yet campus	1,139,739	1,080,049
Total property and equipment	11,082,689	10,778,139
Less accumulated depreciation	(6,315,287)	(5,931,036)
	4,767,402	4,847,103
Land	186,171	186,171
Total property and equipment	\$ 4,953,573	\$ 5,033,274

Note 5 – Restricted Investments

Restricted investments are held by a trustee in cash and U.S. Treasury bonds for the purpose of making the annual bond, taxes and insurance payments. As of June 30, 2021 and 2020, the restricted investment balances are for the following reserves:

	2021	2020
Investments:		
Bond principal	\$ 597,837	\$ 599,243
Bond interest	482,652	477,213
Taxes and insurance	34,347	74,983
Other bond expenses	7,136	7,227
Total restricted investments	\$ 1,121,972	\$ 1,158,666

Notes to Combined Financial Statements – Continued

Note 5 – Restricted Investments - Continued

Financial accounting standards define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes valuation techniques used to measure fair value into three broad levels:

- **Level 1** - Valuation based on unadjusted quoted prices within active markets for identical assets or liabilities accessible or payable by the School. The School does not have any investments classified as level 1.
- **Level 2** - Valuation based on quoted market prices for similar assets or liabilities within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset or liability. All of the School's investments are classified as level 2.
- **Level 3** - Valuation based on inputs other than quoted market prices that reflect assumptions about the asset or liability that market participants would use when performing the valuation based on the best information available in the circumstances. The School does not have any investments classified as level 3.

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
U.S. Treasury bonds	\$ -	\$1,121,972	\$ -	\$ 1,121,972

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
U.S. Treasury bonds	\$ -	\$1,158,666	\$ -	\$ 1,158,666

Note 6 – Prepaid Rent

During fiscal year 2007, the School prepaid rent to Project America (an affiliate through family relations) for the establishment of a new lease of the School's grounds and buildings. The School also paid a \$150,000 security deposit to Project America at inception of the new lease. The School is to recognize rent expense over seventeen years at the rate of \$120,000 per year.

Notes to Combined Financial Statements – Continued

Note 6 – Prepaid Rent - Continued

During fiscal year 2016, the School paid closing costs and constructions costs of \$95,474 related to the purchase of land and buildings by the lessor for the NFL YET school facilities that the School is renting from Spirit Mission, Inc. (a related party through common board member). This amount will be applied to the final lease payments and is treated as prepaid rent.

The balances of the prepaid rent at June 30, 2021 and 2020, are as follows:

	2021	2020
Project America	\$ 291,000	\$ 411,000
Spirit Mission	95,474	95,474
Total prepaid rent	386,474	506,474
Less: current portion	(120,000)	(120,000)
Long-term portion of prepaid rent	\$ 266,474	\$ 386,474

Note 7 – Operating Lease Commitments

The School leases the land for their campus and twenty-six buildings from Project America (an affiliate through family relations) under an operating ground lease expiring on October 31, 2026, with an additional ten-year option. Rent expense less prepaid amortization is \$630,000 annually.

The School also leases a building from Mary’s Ministries Incorporated (an affiliate through family relations) under an operating lease expiring December 31, 2022. The School makes lease payments for the building of \$48,000 annually.

The School entered into a lease for the NFL Yet campus with Spirit Mission, Inc. (a related party through a common board member) which expires June 30, 2025. Rent expense, net of deferred rent of \$39,459, for the years ended June 30, 2021 and 2020, was \$875,836.

The School’s future minimum payments under these leases as of June 30, 2021, are as follows:

Year ending June 30,	Gross Rent Amount	Less Amortization of Prepaid Rent	Net Rent to be Paid
2022	\$ 1,713,295	\$(120,000)	\$ 1,593,295
2023	1,689,295	(120,000)	1,569,295
2024	1,665,295	(40,000)	1,625,295
2025	1,665,295	-	1,665,295
2026	750,000	-	750,000
Thereafter	250,000	-	250,000
	\$ 7,733,180	\$(280,000)	\$ 7,453,180

Notes to Combined Financial Statements – Continued

Note 8 – Long-Term Debt

The following is a summary of long-term debt as of June 30, 2021 and 2020:

	2021	2020
Bonds Payable:		
6.25% Education Revenue Bond Series 2006 A, issued November 29, 2006, due July 1, 2036 (with prepayment at the option of the School in whole or in part on any date commencing July 1, 2017, at the outstanding principal balance), with interest paid semi-annually on July 1 and January 1. Principal payments in annual accelerating amounts commenced on July 1, 2018.	\$ 6,150,000	\$ 6,350,000
Total outstanding bonds	6,150,000	6,350,000
Notes Payable:		
Interest only loan with the City of Phoenix Industrial Development Authority (IDA) at 5.5% per annum collateralized by State payments for the high school charter school. On October 6, 2017, the IDA waived the permanent financing option but reserved the right to convert the loan to permanent financing at any time. On May 4, 2018, the IDA agreed to payment terms of \$50,000 plus interest, annually due on July 1, beginning July 1, 2018 with the second payment due July 1, 2019.	-	25,000
Paycheck Protection Plan note payable to a financial institution in 48 monthly payments of \$12,468 beginning July 2021, which includes interest at 1.00%, due June 2025. The note is unsecured.	-	580,380
Economic Injury Disaster Loan note payable to a financial institution in 360 monthly payments of \$641 beginning June 2021, which includes interest at 2.75%, due May 2051. The note is unsecured.	159,900	159,900
Economic Injury Disaster Loan note payable to a financial institution in 360 monthly payments of \$641 beginning June 2021, which includes interest at 2.75%, due May 2051. The note is unsecured.	159,900	159,900
Total notes payable	319,800	925,180

Notes to Combined Financial Statements – Continued

Note 8 – Long-Term Debt - Continued

	<u>2021</u>	<u>2020</u>
Total outstanding principal balance	\$ 6,469,800	\$ 7,275,180
Unamortized premium	67,714	71,946
Less: net deferred financing costs	<u>(589,095)</u>	<u>(627,307)</u>
Total debt, net of deferred financing costs	5,948,419	6,719,819
Less: current portion bonds payable	<u>(216,674)</u>	<u>(228,314)</u>
Total long-term debt	<u>\$ 5,731,745</u>	<u>\$ 6,491,505</u>

Under terms of the bond agreements, the equalization funding from the State of Arizona is directly remitted to the bondholder to meet debt service requirements. There is no other collateral for the bonds listed above.

Restrictive Financial Covenants

As a part of its bond agreements, the School is required to adhere to a debt service coverage ratio (defined as the ratio of net income available for debt service divided by the maximum annual debt service), the minimum of which is 1.1 to 1. As of June 30, 2021 and 2020, the School was in compliance with this covenant.

In the event the debt service coverage ratio is below 1.1 to 1, the School is required to engage an independent consultant to operate the School until such time as the debt service coverage ratio is at least 1.1 to 1.

The annual principal requirements to maturity as of June 30, 2021, are as follows:

<u>Year ending June 30,</u>	<u>Bonds Payables</u>	<u>Notes Payable</u>	<u>Total Debt</u>
2022	\$ 210,000	\$ 6,674	\$ 216,674
2023	225,000	6,860	231,860
2024	240,000	7,050	247,050
2025	255,000	7,246	262,246
2026	270,000	7,448	277,448
2027 – 2031	1,625,000	40,470	1,665,470
2032 – 2036	2,200,000	46,428	2,246,428
2037 – 2041	1,125,000	53,264	1,178,264
2042 - 2046	-	61,106	61,106
2047 - 2051	-	83,254	83,254
	<u>\$ 6,150,000</u>	<u>\$ 319,800</u>	<u>\$ 6,469,800</u>

Notes to Combined Financial Statements – Continued

Note 8 – Long-Term Debt - Continued

Paycheck Protection Plan

In June 2020, the School received a Small Business Administration loan pursuant to the Paycheck Protection Program totaling \$580,380. During July 2020, the School received a second loan totaling \$175,974. As of June 30, 2021, the School met the eligibility guidelines as permitted under Section 1106 of the *Coronavirus Aid, Relief, and Economic Security Act* (or the CARES Act) of 2020 and was entitled to the forgiveness. The School requested debt forgiveness as allowed under the CARES Act. The School received confirmation in October 2021 that debt forgiveness was granted for the principal amount of the loan. Therefore, the School recognized the forgiveness as revenue during the year ended June 30, 2021.

Note 9 – Lines of Credit

On June 4, 2019, the School entered into two lines of credit with Spirit Mission in the amount of \$125,000 each (total of \$250,000), with variable interest rates contingent on the number of days principal is outstanding (1% within 30 days; 4% 31-180 days). The School had no outstanding balance as of June 30, 2021 and 2020.

Note 10 – Pension Plans

Defined Contribution Plan

The School provides pension benefits for all its permanent full-time administrative employees through a 403(b) defined contribution plan. The plan was established pursuant to authorization by the board of directors and can be amended upon the board's approval. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The School's contribution to the plan for fiscal year 2021 and 2020 was \$10,565 and \$9,815, respectively, and employee contributions to the plan were \$3,885 and \$4,576, respectively.

Defined Benefit Plan

The School is a member of the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan.

The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Notes to Combined Financial Statements – Continued

Note 10 – Pension Plans - Continued

All full-time employees participate in the plan. The School is required to contribute at the actuarially determined rate of 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent long term disability) of the members' annual covered payroll for the fiscal year 2021; and 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent long term disability) of the members' annual covered payroll for the fiscal year 2020. ASRS's financial statements for the plan years ended June 30, 2021 and 2020, indicate the plan was 73.24% and 73.4%, respectively, funded. The School's contribution to the system for fiscal year 2021 and 2020 was \$284,554 and \$340,302, respectively.

Due to a settlement in 2020 with the Arizona State Retirement System regarding a Reyes Maria Ruiz Leadership Academy (RMR) operating license matter concerning retirement contributions for fiscal years 2014 through 2020, as of June 30, 2021 and 2020, the School has recorded \$0 and \$339,150 in accounts payable, respectively. As of June 30, 2021 and 2020, the School also reported \$262,950 as a long-term and \$60,000 as a current liability for amounts due to ASRS.

Note 11 – Eliminations

Espiritu Community Development Corporation (CDC) entered into a formula based contract with Espiritu Schools (ES), to develop student life, parent and staff activities including international servant leadership projects, athletics and additional services as may be mutually agreed upon. Under terms of the agreement, CDC is to compensate ES at a rate equal to 13% of CDC's gross state equalization funding including state base level support and additional assistance and excluding funding under Proposition 301, instructional improvement or federal awards. The agreement may be terminated by either party upon 90-day written notice prior to the beginning of a new school year. During the years ended June 30, 2021 and 2020, CDC paid \$773,390 and \$700,934, respectively, for these services, which has been eliminated in the combined financial statements. There was also intercompany receivables and payables in the amount of \$65,643 as of June 30, 2021, between CDC and ES.

Note 12 – Economic Dependency and Risks

For the years ended June 30, 2021 and 2020, the School's revenues were primarily received from federal and state financial assistance, which is subject to availability of funds and the School's compliance with federal and state rules and regulations.

The COVID-19 outbreak in the United States has continued to cause disruptions in the operations of organizations. While such disruptions are not currently expected to negatively affect the School, there continues to be considerable uncertainty about the affect the pandemic will have on the School. However, the related financial impact on the School and the duration of the outbreak cannot be reasonably estimated at this time.

Note 13 – Subsequent Events

Management evaluated subsequent events through March 30, 2022, the date the financial statements were available to be issued. No events or transactions occurred after year-end that require additional disclosure or adjustment to the financial statements.

Supplemental Information

Espiritu Community Development Corporation
(a nonprofit organization)
Combining Statements of Financial Position
June 30, 2021

	<u>Espiritu CDC</u>	<u>Espiritu Schools</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,275,526	\$ 240,642	\$ -	\$ 2,516,168
Marketable securities	1,063	-	-	1,063
Grants receivable	638,933	25,373	-	664,306
Due from related party	-	65,643	(65,643)	-
Prepaid rent	120,000	-	-	120,000
Employee advances	8,442	150	-	8,592
Total current assets	3,043,964	331,808	(65,643)	3,310,129
Property and Equipment, net	4,843,781	109,792	-	4,953,573
Restricted Cash	449,348	-	-	449,348
Restricted Investments	1,121,972	-	-	1,121,972
Other Assets				
Prepaid rent	266,474	-	-	266,474
Security deposit	150,000	-	-	150,000
Total other assets	416,474	-	-	416,474
Total assets	<u>\$ 9,875,539</u>	<u>\$ 441,600</u>	<u>\$ (65,643)</u>	<u>\$ 10,251,496</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 253,611	\$ 71,297	\$ -	\$ 324,908
Accrued liabilities	203,443	61,384	-	264,827
Interest payable	192,188	-	-	192,188
Due to related party	65,643	-	(65,643)	-
Current portion of deferred rent	39,459	-	-	39,459
Current portion of long-term debt	213,337	3,337	-	216,674
Total current liabilities	967,681	136,018	(65,643)	1,038,056
Long-Term Liabilities, less current maturities				
Deferred rent	82,206	-	-	82,206
Bonds payable, net	5,418,619	-	-	5,418,619
Notes payable	156,563	156,563	-	313,126
Accrued liabilities	262,950	-	-	262,950
Total liabilities	6,888,019	292,581	(65,643)	7,114,957
Net Assets				
Without donor restrictions	2,987,520	149,019	-	3,136,539
Total net assets	2,987,520	149,019	-	3,136,539
Total liabilities and net assets	<u>\$ 9,875,539</u>	<u>\$ 441,600</u>	<u>\$ (65,643)</u>	<u>\$ 10,251,496</u>

Espiritu Community Development Corporation
(a nonprofit organization)
Combining Statements of Activities
Year ended June 30, 2021

	<u>Espiritu CDC</u>	<u>Espiritu Schools</u>	<u>Eliminations</u>	<u>Total</u>
Without Donor Restrictions:				
Operating Revenue and Support				
State aid	\$ 6,962,923	\$ 430,613	\$ -	\$ 7,393,536
Federal funding	1,562,250	116,062	-	1,678,312
Food service program	2,601,574	14,327	-	2,615,901
Contributions	11,324	-	-	11,324
Miscellaneous	80,814	8,505	-	89,319
Day care	910	-	-	910
Fundraising	855	-	-	855
Investment income	1,028	77	-	1,105
Paycheck Protection Plan loan forgiveness	580,380	175,974	-	756,354
Fees for services	-	773,390	(773,390)	-
Total operating revenue and support	11,802,058	1,518,948	(773,390)	12,547,616
Operating Expenses				
<i>Program Services</i>				
Elementary school	4,803,057	-	(433,744)	4,369,313
College preparatory	4,986,209	658,340	(307,618)	5,336,931
Total program services	9,789,266	658,340	(741,362)	9,706,244
<i>Supporting Services</i>				
Management and general	874,503	910,215	(32,028)	1,752,690
Total operating expenses	10,663,769	1,568,555	(773,390)	11,458,934
Changes in net assets	1,138,289	(49,607)	-	1,088,682
Net assets, beginning of year	1,849,231	198,626	-	2,047,857
Net assets, end of year	<u>\$ 2,987,520</u>	<u>\$ 149,019</u>	<u>\$ -</u>	<u>\$ 3,136,539</u>

Other Reports

Independent Auditor’s 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
Espiritu Community Development Corporation
and Espiritu Schools

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 financial statements of Espiritu Community Development Corporation and Espiritu Schools (nonprofit organizations) (hereinafter collectively referred to as the School), which comprise the combined statement of financial position as of June 30, 2021, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated March 30, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the School’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

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

The School's Response to the Finding

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker & Armstrong, LLP

Phoenix, Arizona
March 30, 2022

**Espiritu Community Development Corporation
and Espiritu Schools
Schedule of Findings
Year ended June 30, 2021**

Finding 2021-001 – Improve Controls over Account Reconciliations (Material Weakness)

Condition – While the School has a process in place to reconcile transactions, we noted certain incomplete or inaccurate account reconciliations. Accounts that required further analysis consisted of cash, accounts receivable and related revenues. These accounts required significant adjustments found during the audit process.

Recommendation – We recommend that the School implement policies and procedures to reconcile its account balances in a complete, timely and accurate manner. Doing so will result in providing more timely and accurate financial information to management, governance and funding agencies.

School's Response: The School's management team will obtain additional technical training and guidance regarding account reconciliations of cash, accounts receivable and related revenues. Also, the School will add the review of accounts receivable and revenues to the existing review process on a monthly basis.