

ASU Preparatory Academy
Consolidated Financial Statements,
Supplementary Information
and
Single Audit Reports
Year Ended June 30, 2021

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Independent Auditors' Report

To the Board of Directors of
ASU Preparatory Academy
Tempe, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ASU Preparatory Academy (ASU Prep, a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of ASU Prep as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the financial statements, in the year ended June 30, 2021, ASU Prep changed its method of accounting for leases due to the adoption of ASU No. 2016-02, *Leases (Topic 842)*, as amended, using the modified retrospective approach. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 August 31, 2021 on our consideration of ASU Prep's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 ASU Prep's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

August 31, 2021, except for our report on the supplementary information - schedule of expenditures of federal awards for which the date is February 4, 2022.

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2021

ASSETS

Current assets:	
Cash	\$ 21,672,340
Restricted cash, current portion	224,890
Due from government	3,571,663
Accounts and other receivables	2,829,830
Prepaid expenses and other assets	<u>315,512</u>
Total current assets	28,614,235
Operating lease - right-of-use asset	11,543,739
Property and equipment:	
Land and improvements	961,765
Buildings and improvements	4,344,292
Curriculum software	4,686,088
Furniture, fixtures and equipment	1,494,301
Leasehold improvements	989,487
Curriculum software under development	6,217,737
Less accumulated depreciation	<u>(7,163,816)</u>
	11,529,854
Restricted cash, noncurrent portion	<u>389,396</u>
Total assets	<u><u>\$ 52,077,224</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 4,189,608
Accrued payroll and related	3,205,614
Deferred revenue	5,548,436
Operating lease liability, current portion	1,393,370
Long-term debt, current portion	<u>115,000</u>
Total current liabilities	14,452,028
Operating lease liability, net of current portion	10,192,036
Long-term debt, noncurrent portion, net	<u>4,458,592</u>
Total liabilities	29,102,656
Net assets:	
Without donor restrictions	22,950,965
With donor restrictions	<u>23,603</u>
Total net assets	<u><u>22,974,568</u></u>
Total liabilities and net assets	<u><u>\$ 52,077,224</u></u>

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenue and support:			
State aid	\$ 56,461,550	\$ 1,521,686	\$ 57,983,236
Tuition	1,490,447		1,490,447
Grants	5,638,192		5,638,192
Collaborative revenue	998,917		998,917
Content licensing	8,608,333		8,608,333
Contributions	1,146,810		1,146,810
Tax credit contributions		75,438	75,438
Student activities	113,173		113,173
In-kind services	3,387,252		3,387,252
Miscellaneous	351,320		351,320
Net assets released from restrictions:			
Satisfaction of donor requirements	<u>2,046,822</u>	<u>(2,046,822)</u>	
Total revenue and support	80,242,816	(449,698)	79,793,118
Expenses:			
Program services:			
Instruction	35,150,031		35,150,031
Instructional support	12,739,311		12,739,311
Supporting services:			
Management and general	15,108,007		15,108,007
Operation and maintenance	2,239,209		2,239,209
Transportation	67,883		67,883
Operation of noninstructional services	<u>675,150</u>		<u>675,150</u>
Total expenses	<u>65,979,591</u>		<u>65,979,591</u>
Revenue and support less expenses	14,263,225	(449,698)	13,813,527
Nonoperating losses:			
Loss on disposal of assets	<u>(586,745)</u>		<u>(586,745)</u>
Change in net assets	13,676,480	(449,698)	13,226,782
Net assets, beginning of year	<u>9,274,485</u>	<u>473,301</u>	<u>9,747,786</u>
Net assets, end of year	<u>\$ 22,950,965</u>	<u>\$ 23,603</u>	<u>\$ 22,974,568</u>

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

Cash flows from operating activities:	
Cash received from services, grants, and contributions	\$ 77,445,514
Cash received from interest	2,348
Cash payments to employees for services	(39,655,904)
Cash payments to suppliers for goods and services	(19,042,627)
Cash payments for interest	<u>(323,071)</u>
Net cash provided by operating activities	18,426,260
Cash flows from investing activities:	
Payments for purchases of property and equipment	<u>(3,520,790)</u>
Net cash used by investing activities	(3,520,790)
Cash flows from financing activities:	
Principal payments on long-term debt	<u>(543,333)</u>
Net cash used by financing activities	<u>(543,333)</u>
Net increase in cash and restricted cash	14,362,137
Cash and restricted cash, beginning of year	<u>7,924,489</u>
Cash and restricted cash, end of year	<u><u>\$ 22,286,626</u></u>
<u>Cash and cash equivalents and restricted cash:</u>	
Cash	\$ 21,672,340
Restricted cash, current portion	224,890
Restricted cash, noncurrent portion	<u>389,396</u>
	<u><u>\$ 22,286,626</u></u>

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ 13,226,782
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,681,493
Amortization of loan issuance costs	12,207
Loss on disposal of assets	586,745
Net change in right-of-use asset and operating lease liability	45,584
Changes in:	
Due from government	(1,108,516)
Accounts and other receivables	(1,849,505)
Prepaid expenses and other assets	(80,408)
Accounts payable	1,403,306
Accrued payroll and related	525,375
Deferred revenue	3,983,197
Net cash provided by operating activities	<u>\$ 18,426,260</u>
<u>Supplemental disclosures:</u>	
Cash paid for interest	\$ 265,096
Cash paid for operating lease payments	\$ 1,363,189
<u>Supplemental disclosure of noncash financing activities:</u>	
Leased assets obtained in exchange for new operating lease liabilities	\$ 12,933,088

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

University Public Schools, Inc. (UPSI) was formed in July 2007 to operate a public school under the laws of the State of Arizona applicable to charter schools. In July 2013, UPSI changed its name from University Public Schools, Inc. to ASU Preparatory Academy (ASU Prep). ASU Prep derives program funding primarily from state educational aid, government grants and contributions.

ASU Prep has an affiliation agreement with Arizona State University (ASU) where the agreement provides ASU with opportunities to promote innovative teaching methods, teacher training methods, curriculum, school administration, professional development and educational research. ASU Prep, through the affiliation may obtain certain services from ASU, including the participation of ASU faculty and staff and may use ASU's trademark in the conduct of school activities. ASU may from time-to-time provide an affiliation payment for consideration of the services provided by ASU Prep. In addition, ASU Prep's by-laws require that two members of the Board of Directors be appointed by the President of ASU and be either employed by or an independent contractor engaged by ASU.

ASU Prep Global Academy is a not-for-profit 501(c)(3) organization incorporated in the State of Arizona. ASU Prep Global Academy offers online K-12 and college prep curriculum to students around the world. ASU Prep is the sole member of ASU Prep Global Academy.

The significant accounting policies of ASU Prep follow:

Principles of Consolidation: The consolidated financial statements represent the accounts of ASU Preparatory Academy and ASU Prep Global Academy. All significant intercompany transactions and accounts have been eliminated. The consolidated financial statements are not those of a separate legal entity.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. ASU Prep is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions: ASU Prep follows the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded based on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Due from Government: Due from government consists primarily of state approved payments to ASU Prep to operate the charter school. ASU Prep has never experienced any losses due to non-payment, and expects none from the June 30, 2021 balances, and therefore has not established an allowance for uncollectibility.

Accounts and Other Receivables: Accounts and other receivables consist primarily of amounts due from schools and school districts for collaborative revenue and content licensing. ASU Prep has evaluated the receivable balances for any potential losses due to non-payment, and expects none, and therefore has not established an allowance for uncollectibility.

Property and Equipment: All acquisitions of property and equipment with an initial cost of \$5,000 or more and an estimated life of one year or more are capitalized. Assets are stated at cost. Donations of property and equipment are recorded at estimated fair value as of the date of donation. Depreciation is provided on the straight-line basis over the following estimated useful lives of the respective assets:

Buildings and improvements	5-30 years
Furniture, fixtures and equipment	3-10 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease
Curriculum software	2-5 years

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Deferred Revenue: Deferred revenue consists of tuition fees for pre-kindergarten and kindergarten collected in advance for the next school year. Also, ASU Prep records funds received from grant awards classified as exchange transactions as deferred revenue until the related funds are expended and/or the services related to the awards are performed, as well as substantially meeting conditions on which they depend, at which time the funds are recognized as revenue.

Advertising: Advertising costs are expensed as incurred. During the year ended June 30, 2021, ASU Prep had \$182,539 in advertising costs.

In-Kind Services: ASU Prep records revenue and a corresponding expense for in-kind services for the use of school sites at its estimated fair value and in-kind services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided. The value of in-kind services is determined based on the estimated fair value of the services received or the increase in the fair value of the assets that are attributable to the in-kind services. Total in-kind services for the use of school sites and other in-kind services received during the year ended June 30, 2021 was \$3,370,812 and \$16,440, respectively.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in Note 10 to the consolidated financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: ASU Prep and ASU Prep Global Academy are exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Change in Accounting Principle: In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. ASU Prep has elected the package of practical expedients permitted in ASU 2016-02. Accordingly, ASU Prep accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASU 2016-02, (b) whether classification of the operating leases would be different in accordance with ASU 2016-02, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2015) would have met the definition of initial direct costs in ASU 2016-02 at lease commencement. No changes to beginning net assets were necessary as ASU Prep implemented this change in accounting principle on a modified retrospective basis

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY

ASU Prep monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. ASU Prep has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

Financial assets included in current assets:	
Cash	\$21,672,340
Restricted cash, current portion	224,890
Due from government	3,571,663
Accounts receivable	<u>2,829,830</u>
Total financial assets included in current assets	28,298,723
Less amounts unavailable for general expenditure within one year:	
Restricted cash, current portion	224,890
Tax credit contributions restricted for extracurricular activities	<u>23,603</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$28,050,230</u>

In addition to financial assets available to meet general expenditures over the year, ASU Prep operates with a balanced budget and anticipates covering its general expenditures by collecting revenue from the State of Arizona, contributions, grants, and other revenues; and by utilizing donor-restricted resources from current and prior year gifts. Also, ASU Prep maintains a \$5,000,000 line-of-credit (see Note 4) with a financial institution that is drawn upon as needed to manage cash flow.

NOTE 3 - CONCENTRATION OF CREDIT RISK

ASU Prep maintains cash balances at a financial institution, which is insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash may be in excess of FDIC insurance limits. ASU Prep has not experienced any losses in such accounts and management believes it is not exposed to any significant risks related to these accounts.

NOTE 4 - LINE-OF-CREDIT

ASU Prep has a \$5,000,000 line-of-credit with a financial institution. Interest is payable monthly at the Wall Street Journal Prime Rate, which was 3.25%, at June 30, 2021. At June 30, 2021, there was no outstanding balance on the line.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 5 - LONG-TERM DEBT

\$5,500,000 Education Facility Revenue Bonds (Phoenix Collegiate Academy Project) Series 2012, issued by the Industrial Development Authority of the City of Phoenix, Arizona. The proceeds from the bonds were loaned to Phoenix Collegiate Academy, Inc. pursuant to a loan agreement dated November 1, 2012. The loan matures over 30 years with an interest rate of 5.00% to 5.625%. Principal is due July 1 each year, beginning July 1, 2015, and interest is due semiannually on January 1 and July 1, beginning July 1, 2013. The note is secured by a deed of trust on real property. ASU Prep assumed the loan on July 1, 2018. Under the loan agreement, ASU Prep is required to comply with certain financial covenants. At June 30, 2021, ASU Prep was in compliance with these covenants and a calculation of them is shown on the following page.

	\$ 4,835,000
Less current maturities	115,000
Less unamortized loan issuance costs	<u>261,408</u>
	<u>\$ 4,458,592</u>

The future minimum payments on long-term debt are as follows:

Year ending June 30:	
2022	\$ 115,000
2023	120,000
2024	130,000
2025	135,000
2026	145,000
Thereafter	<u>4,190,000</u>
	4,835,000
Less unamortized loan issuance costs	<u>261,408</u>
Total	<u>\$ 4,573,592</u>

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 5 - LONG-TERM DEBT - Continued

The debt service coverage ratio compliance covenant is calculated by dividing the Net Income Available for Debt Service of the pledged school sites by the Maximum Annual Debt Service for the bonds for the pledged school sites, as defined in the bonds. For purposes of the calculation, only ASU Prep's South Phoenix school sites are pledged sites as defined in the bonds. For the year ended June 30, 2021, the debt service coverage ratio is calculated as follows:

Change in net assets	\$ 15,589
Add:	
Amortization of loan issuance costs	12,207
Depreciation expense	145,814
Interest expense related to the 2012 Bonds	<u>265,500</u>
Net income available for debt service	<u>\$ 439,110</u>
Maximum annual debt service under the 2012 Bonds	<u><u>\$ 381,094</u></u>
Debt service coverage ratio	<u><u>1.15</u></u>

The liquidity coverage compliance covenant is calculated by dividing the Net Current Assets of the pledged school sites by the Operating Expenses for the pledged school sites, as defined in the bonds. For purposes of the calculation, only ASU Prep's South Phoenix school sites are pledged sites as defined in the bonds. For the year ended June 30, 2021, the liquidity coverage is calculated as follows:

Net current assets	\$ 3,222,155
Operating expenses	\$ 4,619,985
Less:	
Amortization of loan issuance costs	(12,207)
Depreciation expense	(145,814)
Total operating expenses	<u>\$ 4,461,964</u>
Liquidity coverage	72%

NOTE 6 - OPERATING LEASES

During the year ended June 30, 2019, ASU Prep entered into an agreement to lease facilities for a school site under an agreement that expires in June 2021, which is classified as a operating lease. During the year ended June 30, 2021, ASU Prep signed an agreement to extend the operating lease through June 30, 2026. In addition, ASU Prep leases a building used for a school site from a related party (see Note 9) under an agreement expiring September 2032, which is classified as an operating lease.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 - OPERATING LEASES - Continued

During the year ended June 30, 2021, the components of lease expense were as follows:

Operating lease cost:	
Rent expense	\$ 1,404,855

Supplemental information for the statement of activities for the year ended June 30, 2021 related to leases was as follows:

Operating lease right-of-use asset, net	\$11,543,739
Operating lease liabilities:	
Current portion of long-term debt	1,393,370
Long-term debt	10,192,036

During the year ended June 30, 2021, ASU Prep had the following cash and non-cash activities associated with leases:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating lease	\$ 1,363,189
Non-cash investing and financing activities:	
Right-of-use asset obtained in exchange for lease obligation:	
Operating lease	12,933,088

The future payments due under operating leases are as follows:

Year ending June 30:	
2022	\$ 1,414,988
2023	1,388,272
2024	1,386,808
2025	1,386,473
2026	1,386,473
Thereafter	<u>5,516,965</u>
	12,479,979
Less: interest	<u>894,573</u>
Present value of lease liabilities	<u><u>\$ 11,585,406</u></u>

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 - OPERATING LEASES - Continued

Because ASU Prep generally does not have access to the rate implicit in the lease, ASU Prep utilizes the appropriate US Treasury Bill rate relative to the lease term as the discount rate. As of June 30, 2021, the discount rate on the operating leases was between 0.49% and 1.27%.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions released from restrictions for the year ending June 30, 2021 consisted of the following:

Academic programs	\$ 67,261
Classroom Site Funds	1,704,447
Tax credit contributions restricted for extracurricular activities	<u>275,114</u>
	<u>\$ 2,046,822</u>

Net assets with donor restrictions consisted of the following at June 30, 2021:

Tax credit contributions restricted for extracurricular activities	\$ 23,603
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NOTE 8 - CONDITIONAL CONTRIBUTIONS

ASU Prep received conditional contributions during the fiscal year ending June 30, 2021. Conditional contributions are recorded when the donor-imposed conditions are substantially met. Certain conditions are required to be met by ASU Prep in the subsequent years in order to earn and receive these amounts. As of June 30, 2021, amounts awarded but not yet earned totaled \$4,196,882. While management believes that ASU Prep will meet these conditions, they had not been met as of the year ended June 30, 2021. Accordingly, no amount has been recorded for these conditional contributions as a receivable in these consolidated financial statements.

NOTE 9 - RELATED PARTY TRANSACTIONS

ASU Prep has an affiliation agreement with ASU. ASU Prep paid ASU fees that totaled \$1,407,334 for professional services and use of space. In addition, ASU Prep recorded in-kind services for the use of school sites and other in-kind services of \$3,387,252 received from ASU during the year ended June 30, 2021.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 10 - FUNCTIONAL EXPENSE ALLOCATIONS

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, insurance, repairs and maintenance, and utilities, which are allocated on a square footage basis; payroll and related expenses, professional services, supplies and instructional aids, food service, travel and training, dues and fees, office and administration, and information technology are allocated on the basis of estimates of time and effort.

The following is a summary of ASU Prep's expenses by function for the year ended June 30, 2021:

	Program Services	Supporting Services	Total
Wages and salaries	\$ 24,996,568	\$ 6,197,876	\$ 31,194,444
Payroll taxes and fringe benefits	7,201,284	1,785,551	8,986,835
Professional services	2,865,179	5,444,325	8,309,504
Supplies and instructional aids	4,534,853	173,229	4,708,082
Food service	342,168		342,168
Travel and training	329,882	56,559	386,441
Repairs and maintenance		1,114,366	1,114,366
Transportation		67,883	67,883
Depreciation	1,378,824	302,669	1,681,493
Advertising	36,535	146,004	182,539
Dues and fees	368,205	218,520	586,725
Insurance		125,691	125,691
Office and administration	54,782	223,992	278,774
Information technology	360,266	489,965	850,231
Utilities		536,707	536,707
Rent	1,294,704	148,943	1,443,647
In-kind services	3,384,755	396,057	3,780,812
Interest expense		280,038	280,038
Other	741,337	381,874	1,123,211
Total expenses	<u>\$ 47,889,342</u>	<u>\$ 18,090,249</u>	<u>\$ 65,979,591</u>

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 11 - RETIREMENT PLAN

Plan Description: Permanent full-time and certain part-time employees of ASU Prep participate in a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Funding Policy: The Arizona State Legislature establishes and may amend active plan members' and ASU Prep's contribution rates. For the year ended June 30, 2021, active plan members and ASU Prep were each required by statute to contribute at the actuarially determined rate of 12.22 percent (12.04 percent retirement and 0.18 percent long-term disability). ASU Prep's contributions to ASRS for the year ended June 30, 2021 were \$3,741,202, which was equal to the required contributions.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: ASU Prep's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and Department of Education. While ASU Prep believes its schools are in compliance with all laws and regulations, such reviews could result in adjustments or withholding of the school's State Equalization or Classroom Site Funds. Management is not aware of any such adjustments or withholdings as of June 30, 2021.

NOTE 13 - ECONOMIC DEPENDENCY

For the year ended June 30, 2021, approximately 78% of ASU Prep's revenue was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), Instructional Improvement Funds, State of Arizona grants, and federal grants passed through the State of Arizona. Non-federal funds that are paid from the State of Arizona are subject to funding approval from the state legislature. Changes in state funding levels for charter schools could have a significant impact on ASU Prep's future revenues.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE 14 - SUBSEQUENT EVENTS

ASU Prep has evaluated subsequent events through August 31, 2021, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2021 that would require adjustment to the financial statements. However, ASU Prep did note the following event that occurred subsequent to the year end that should be disclosed:

The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary reductions of services. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and the related financial impact. However, the related financial impact and duration cannot be reasonably estimated at this time.

SUPPLEMENTARY INFORMATION

ASU Preparatory Academy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2021

<u>Federal Assistance Listings Number</u>	<u>Federal Program Name</u>	<u>Cluster Title</u>	<u>Pass-Through Grantor</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services					
10.559	Summer Food Service Program for Children	Child Nutrition Cluster	Arizona Department of Education	ED09-0001	\$ 285,859
10.558	Child and Adult Care Food Program		Arizona Department of Education	KR02-1170-ALS	<u>73,327</u>
Total U.S. Department of Agriculture					<u>359,186</u>
U.S. Department of Education					
84.010A	Title I Grants to Local Educational Agencies		Arizona Department of Education	21FT1TTI-110646-01A	1,023,860
84.027A	Special Education Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	21FESCBG-110646-09A	518,767
84.173A	Special Education Preschool Grants	Special Education Cluster (IDEA)	Arizona Department of Education	21FECCBP-110646-37A	<u>3,032</u>
Total Special Education Cluster (IDEA)					<u>521,799</u>
84.282A	Charter Schools		N/A	N/A	126,644
84.282A	Charter Schools		Arizona Department of Education	20FCS91M-010646-01A	<u>57,761</u>
84.282 Subtotal					<u>184,405</u>
84.287C	Twenty-First Century Community Learning Centers		Arizona Department of Education	20FCCLC4-010646-16C	16,542
84.358A	Rural and Low-Income School		Arizona Department of Education	21FTIRLC-110518-04A	24,444
84.365A	English Language Acquisition State Grants		Arizona Department of Education	21FELENG-110161-66A	34,476
84.424A	Student Support and Academic Enrichment Program		Arizona Department of Education	21FT4TIV-110646-01AA	2,197
84.425C	COVID-19 Elementary and Secondary School Emergency Relief Fund		Office of the Arizona Governor	ERMT-21-5007	500,000
84.425D	COVID-19 Elementary and Secondary School Emergency Relief Fund		Arizona Department of Education	21-04-ED	<u>494,691</u>
84.425 Subtotal					<u>994,691</u>
Total U.S. Department of Education					<u>2,802,414</u>
U.S. Department of the Treasury					
21.019	COVID-19 Coronavirus Relief Fund		Office of the Arizona Governor		<u>1,584,899</u>
Total Expenditures of Federal Awards					<u>\$ 4,746,499</u>

The accompanying notes are an integral part of this schedule.

ASU Preparatory Academy

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of ASU Preparatory Academy (ASU Prep) for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 - FEDERAL ASSISTANCE LISTING NUMBER

The program titles and Federal Assistance Listing numbers were obtained from the federal or pass-through grantors or the 2021 *Federal Assistance Listings*. When no Federal Assistance Listings numbers had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two digit federal agency identifier and the word "unknown" were used.

NOTE 3 - INDIRECT COST RATE

ASU Prep did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 4 - SUBRECIPIENTS

ASU Prep did not pass any funds onto subrecipients during the year ended June 30, 2021.

SINGLE AUDIT REPORTS



**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Consolidated Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
ASU Preparatory Academy
Tempe, 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 financial statements of ASU Preparatory Academy (ASU Prep), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 31, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ASU Prep's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ASU Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of ASU Prep'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. 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 ASU Prep's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 ASU Prep's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ASU Prep's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

August 31, 2021



Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
ASU Preparatory Academy
Tempe, Arizona

Report on Compliance for Each Major Federal Program

We have audited ASU Preparatory Academy's (ASU Prep) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ASU Prep's major federal programs for the year ended June 30, 2021. ASU Prep's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, ASU Prep complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Fester & Chapman, PLLC

February 4, 2022

ASU Preparatory Academy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report issued:	Unmodified	
	Yes	No
Internal control over financial reporting:		
Material weaknesses identified?	_____	<u> X </u>
Significant deficiencies identified?	_____	<u> X </u> (None reported)
Noncompliance material to the financial statements noted?	_____	<u> X </u>

Federal Awards

Internal control over major programs:		
Material weakness identified?	_____	<u> X </u>
Significant deficiencies identified?	_____	<u> X </u> (None reported)
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	_____	<u> X </u>

Identification of major programs:

<u>Federal Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>
84.425C	COVID-19 Elementary and Secondary School Emergency Relief Fund
84.425D	COVID-19 Elementary and Secondary School Emergency Relief Fund
21.019	COVID-19 Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ X _____

Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR §200.511(b)? _____ X _____

ASU Preparatory Academy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year Ended June 30, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.