

JAMES MADISON PREPARATORY SCHOOL, INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2022**

JAMES MADISON PREPARATORY SCHOOL, INC.
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Independent Auditor's Report

To the Board of Directors of
James Madison Preparatory School, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of James Madison Preparatory School, Inc. (School), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of James Madison Preparatory School, Inc. as of June 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of James Madison Preparatory School, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about James Madison Preparatory School, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of James Madison Preparatory School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about James Madison Preparatory School, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022, on our consideration of James Madison Preparatory School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of James Madison Preparatory School, Inc.'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 James Madison Preparatory School, Inc.'s internal control over financial reporting and compliance.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
October 11, 2022

JAMES MADISON PREPARATORY SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

Current Assets:

Cash and cash equivalents	
(including restricted cash of \$58,125)	\$ 189,823
Due from State of Arizona	67,793
Accounts receivable	44
Prepaid expenses	<u>20,002</u>

Total Current Assets 277,662

Non-current assets:

Refundable deposits	5,900
Property and equipment, net of accumulated depreciation	<u>60,092</u>

Total Assets \$ 343,654

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 6,656
Accrued payroll and related expenses	15,369
Credit card payable	5,581
Due to State of Arizona	15,983
Compensated absences	16,760
Capital leases payable-current portion	9,923
Notes payable-current portion	<u>1,312</u>

Total Current Liabilities 71,584

Non-current liabilities:

Capital leases payable-less current portion	26,135
Notes payable-less current portion	<u>4,443</u>

Total Liabilities 102,162

Net Assets:

Without donor restrictions	<u>241,492</u>
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Total Net Assets 241,492

Total Liabilities and Net Assets \$ 343,654

See accompanying notes to financial statements

JAMES MADISON PREPARATORY SCHOOL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
Revenues, gains, and other support:			
State equalization and other assistance	\$ 1,651,795	\$ -	\$ 1,651,795
Federal and State grants	90,086		90,086
Contributions	12,748		12,748
School activities	68,370		68,370
Extracurricular activities contributions	33,680	-	33,680
Interest	418		418
Miscellaneous	347		347
Net assets released from restriction	24,897	(24,897)	-
 Total Revenues, gains, and other support	 1,882,341	 (24,897)	 1,857,444
 Expenses:			
Program Services			
Salaries and benefits	\$ 1,328,091	\$ -	\$ 1,328,091
Purchased services	135,931		135,931
Rent and occupancy costs	172,734		172,734
Supplies	67,453		67,453
Miscellaneous	45,216		45,216
Depreciation	15,765		15,765
Management and General			
Salaries and benefits	33,851		33,851
Purchased services	69,055		69,055
Supplies	6,047		6,047
Interest	3,639		3,639
Miscellaneous	2,846		2,846
 Total Expenses	 1,880,628	 -	 1,880,628
 Increase/(Decrease) in net assets	 1,713	 (24,897)	 (23,184)
 Net assets, beginning of year	 239,779	 24,897	 264,676
 Net assets, end of year	 \$ 241,492	 \$ -	 \$ 241,492

See accompanying notes to financial statements

JAMES MADISON PREPARATORY SCHOOL, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

Cash flows from operating activities:	
(Decrease) in net assets	\$ (23,184)
Adjustments to reconcile changes in net assets to net	
Cash provided/(used) by operating activities:	
Depreciation and amortization	15,765
Decrease in due from State of Arizona	94,885
Decrease in prepaid expenses	5,979
Increase in accounts payable	508
Increase in accrued payroll and related expenses	2,448
Increase in due to State of Arizona	15,983
(Decrease) in compensated absences	<u>(12,940)</u>
Net cash provided by operating activities	<u>99,444</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(7,320)</u>
Net cash (used) by investing activities	<u>(7,320)</u>
Cash flows from financing activities:	
Net borrowings on credit card payable	2,812
Repayments on capital leases payable	(12,988)
Repayments on notes payable	<u>(1,236)</u>
Net cash (used) by financing activities	<u>(11,412)</u>
Net increase in cash, cash equivalents and restricted cash	80,712
Cash, cash equivalents and restricted cash, beginning of year	<u>109,111</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 189,823</u></u>
Supplemental data:	
Interest paid	\$ 3,639

See accompanying notes to financial statements

JAMES MADISON PREPARATORY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

James Madison Preparatory School, Inc. (School) is an Arizona not-for-profit organization located in Tempe, Arizona. The School was established in 2000 under a charter contract with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. James Madison Preparatory School's mission is to challenge committed students with a robust traditional education, emphasizing America's history and system of government. The School provides educational services to students in grades six through twelve and is funded primarily through the State of Arizona based on student membership.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation – The School presents these financial statements in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. This codification establishes standards for general purpose external financial statements provided by a not-for-profit organization.

These financial statements have been prepared on the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the obligation is incurred. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as without donor restrictions or with donor restrictions. Net assets without donor restrictions are net assets that are not subject to or are no longer subject to donor-imposed restrictions. Net assets with donor restrictions are those net assets expected to be maintained in perpetuity and those expected to be spent over time or for a particular purpose.

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

Fair Value – Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The School's significant financial instruments are cash and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Cash and Cash Equivalents – For purposes of the statement of cash flows, all highly liquid investments with an initial maturity of three months or less when purchased are considered cash equivalents.

Concentration of Credit Risk – The School places its cash with high quality financial institutions. At times, such cash may be in excess of FDIC insurance limits.

JAMES MADISON PREPARATORY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property and Equipment – Land, buildings, and improvements with a cost of \$3,000 or more and vehicles, furniture, and equipment with both a cost of \$3,000 or more and an estimated useful life of one year or more are capitalized. Assets are stated at cost. Assets donated are recorded at their estimated fair market value as of the date received. Amortization of buildings and improvements and depreciation of furniture and equipment are provided on a straight-line basis over the useful lives of the respective assets, ranging from 5 to 20 years.

Revenue Recognition for Program Services – The School recognizes revenue that originates from State law or taxes approved by local voters to provide certain funding to schools as an exchange transaction. As this state equalization and other assistance is involuntary, it does not meet the definition of a contribution. The ADE funding formulas are based on the average daily enrollment (student count) through the School's first 100 days. The School submits its enrollment data to the ADE at least every 20 days of the school year, and the ADE pays the School monthly based on a prorated portion of the annual calculated funding amount. The School satisfies its performance obligation by providing education to the students throughout the school year and recognizes the revenue as the education is provided over the period of the school year. Revenue from the ADE is not typically received in advance. If the revenue received exceeds the final ADE annual calculated funding amount, the excess amount is recorded as a liability – due to State.

Contributions – All contributions, including grants, are considered to be available for use without donor restriction unless specifically restricted by the donor/grantee. Amounts received that are designated for future periods or restricted by the donor for a particular purpose are reported as support that increases net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the Statement of Activities as net assets released from restrictions. However, if a donor restriction is fulfilled in the same time period in which the contribution is received, the School reports that support as without donor restriction. None of the grants received met the definition of “with donor restriction”, and none were conditional on a future performance obligation of the School.

Donated Services – The School receives donated services throughout the year from unpaid volunteers. In accordance with FASB ASC 958-605-25-16, if donated services received (1) create or enhance nonfinancial assets or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School, the donated services are recognized as contributions. No amounts have been reflected in the financial statements for donated services since they do not meet the criteria for recognition.

Expense Allocation – The financial statements report certain expenses that are attributable to one or more program or supporting functions of the School. These expenses are allocated based on square footage or estimates of personnel time and effort, as applicable.

Income Tax Status – The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under A.R.S. §43-1201, and is not classified as a private foundation. Accordingly, there are no income taxes reflected on the Statement of Financial Position or the Statement of Activities.

JAMES MADISON PREPARATORY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Uncertain Tax Positions – The School accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards the School recognizes tax positions only to the extent that Management believes it is “more likely than not” that its tax positions will be sustained upon IRS examination. Management believes that it has no uncertain tax positions for the year ended June 30, 2022.

NOTE 2 – CASH AND CASH EQUIVALENTS

The School maintains all its cash with one financial institution. The carrying amount of deposits was \$189,823 and the bank balance was \$203,225 at June 30, 2022. As of June 30, 2022, the entire balance of \$203,225 was covered by federal depository insurance and the remaining.

Restricted Cash - Classroom Site Project – At June 30, 2022, the School has restricted cash totaling \$58,125 in unspent Classroom Site Fund Monies. The Arizona Department of Education (ADE) administers and allocates Classroom Site Fund (CSF) funds to the School based on student count and other factors specified by statute. The CSF funds are restricted to be allocated towards teacher compensation, including a base pay and performance component, and student support services.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2022, consisted of the following:

Leasehold improvements	\$ 70,154
Furniture and equipment	160,397
Property and equipment, total	<u>230,551</u>
Less: accumulated depreciation and amortization	<u>170,459</u>
Property and equipment, net	<u><u>\$ 60,092</u></u>

Amortization and depreciation expense was \$15,765 for the year ended June 30, 2022.

NOTE 4 – COMPENSATED ABSENCES

The School provides for eleven (11) paid personal days off per year. For each unused personal day, the School will compensate the employee at a rate of \$100 per day. The compensation is paid out in two installments, the first in September and the second in January following each fiscal year end. As of June 30, 2022, employees had unused personal days totaling \$16,760.

**JAMES MADISON PREPARATORY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 – NOTES PAYABLE

The School had the following notes payable outstanding at June 30, 2022:

Note payable to a financial institution totaling \$7,289 with an interest rate of 6.00%. Repayments of \$135 are due monthly. The note is secured by equipment.	\$ 5,755
Total	\$ 5,755

Maturities of the notes payable are as follows:

<u>Fiscal year ending June 30:</u>	
2023	\$ 1,312
2024	1,393
2025	1,479
2026	1,571
Total	\$ 5,755

NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES

Compliance – The School’s compliance with certain laws and regulations is subject to review by their Sponsor and the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in an adjustment of state equalization assistance.

Litigation – The School is contingently liable for claims and judgments resulting from lawsuits incidental to the normal operation of a school. In the opinion of the School’s management, the School’s insurance coverage is adequate to cover claims relating to normal operations and decisions that might adversely impact the School would not have a material effect on the financial statements. Accordingly, no provision for possible losses is reflected in the financial statements.

JAMES MADISON PREPARATORY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

Operating leases – The School leases buildings under the provisions of a long-term lease agreement classified as an operating lease. Rent expense paid under the terms of the operating lease was \$120,000 for the year ended June 30, 2022, which is equal to the required payments. As of June 30, 2022, the total remaining lease payments under the noncancellable operating lease are as follows:

<u>Fiscal year ending June 30:</u>	
2023	\$ 120,000
2024	120,000
2025	<u>120,000</u>
Total	<u><u>\$ 360,000</u></u>

NOTE 7 – CAPITAL LEASE PAYABLE

The School has acquired equipment under the provisions of long-term lease agreements classified as capital leases for accounting purposes due to bargain purchase options at the maturity date of the leases or the lease term is equal to 75% of the useful life of the equipment, respectively. Accordingly, the original cost of the leased assets totaling \$61,142 has been capitalized as fixed assets. Amortization expense totaled \$12,228 for the year ended June 30, 2022, and is included in depreciation expense, and accumulated amortization totaled \$26,529 as of June 30, 2022. The future minimum lease payments under the lease, together with the present value of the net minimum lease payments at June 30, 2022, are as follows:

<u>Fiscal year ending June 30:</u>	
2023	\$ 11,692
2024	9,768
2025	9,768
2026	<u>8,919</u>
Total minimum lease payments	40,147
Less amount representing interest	<u>(4,089)</u>
Present value of net minimum capital lease payments	36,058
Less current portion	<u>(9,923)</u>
	<u><u>\$ 26,135</u></u>

NOTE 8 – LINE OF CREDIT

The School has a short-term line of credit with a financial institution totaling \$75,000. The line of credit has an interest rate of 6.00% and is unsecured. As of June 30, 2022, there was no balance outstanding.

JAMES MADISON PREPARATORY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 – CONCENTRATIONS

The School receives a substantial amount of its support from the state government agencies of Arizona. If the State and its agencies significantly reduced the level of support provided to the School it would have a material effect on the School's operations. Management is aware of the concentration and its potential impact. If any reduction did occur, management would take action as appropriate to limit the effect on its programs.

NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the School's financial assets as of June 30, 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or are assets held for other uses.

Financial assets:

Cash and cash equivalents	\$ 189,823
Due from State of Arizona	67,793
Accounts receivable	<u>44</u>

Financial assets at year end: 257,660

Less those unavailable for general expenditures within one year due to:

Cash restricted for classroom site fund (Note 2)	<u>\$ 58,125</u>
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Financial assets available to meet cash needs for general expenditures within one year: 199,535

The School structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the school has a goal to maintain financial assets on hand to meet 30 days of normal operating expenses.

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 11, 2022 and that date corresponds with the date the financial statements were available to be issued.

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**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**

To the Board of Directors of
James Madison Preparatory School, Inc.

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 James Madison Preparatory School, Inc. (School), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered James Madison Preparatory School, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of James Madison Preparatory School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of James Madison Preparatory School, Inc.'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Lorenzo, PLC

Lorenzo, PLC
Gilbert, Arizona
October 11, 2022

**JAMES MADISON PREPARATORY SCHOOL, INC.
STATUS OF PRIOR YEAR FINDINGS OF NONCOMPLIANCE WITH
LAWS AND REGULATIONS AND INTERNAL CONTROL DEFICIENCIES
JUNE 30, 2022**

We have reviewed our prior report dated November 8, 2021, and the School has corrected its only internal control deficiency. The School had no findings of noncompliance.