

**Tempe Preparatory Academy**  
**Financial Statements**  
**and**  
**Independent Auditors' Reports**  
**Year Ended June 30, 2022**

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## Independent Auditors' Report

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Tempe Preparatory Academy (the Academy), 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 the Academy 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 the Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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 the Academy's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 the Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2022, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

*Fester & Chapman, PLLC*

November 15, 2022

Tempe Preparatory Academy

STATEMENT OF FINANCIAL POSITION

June 30, 2022

ASSETS

|                                      |                             |
|--------------------------------------|-----------------------------|
| Current assets:                      |                             |
| Cash                                 | \$ 3,709,088                |
| Due from government                  | 104,845                     |
| Pledges receivable, net              | 165,623                     |
| Prepaid expenses and other assets    | <u>24,994</u>               |
| Total current assets                 | 4,004,550                   |
| Property and equipment:              |                             |
| Land and improvements                | 430,939                     |
| Buildings and improvements           | 9,754,852                   |
| Furniture, fixtures and equipment    | 451,688                     |
| Less accumulated depreciation        | <u>(1,782,818)</u>          |
| Total property and equipment, net    | 8,854,661                   |
| Operating lease - right-of-use asset | <u>409,052</u>              |
| Total assets                         | <u><u>\$ 13,268,263</u></u> |

LIABILITIES AND NET ASSETS

|  |                             |
|--|-----------------------------|
| Current liabilities:                           |                             |
| Accounts payable                               | \$ 107,331                  |
| Accrued payroll and related                    | 279,767                     |
| Other liabilities                              | 117,701                     |
| Deposits held for others                       | 132,495                     |
| Current portion of operating lease liability   | 103,677                     |
| Current maturities of long-term debt           | <u>209,981</u>              |
| Total current liabilities                      | 950,952                     |
| Operating lease liability, non-current portion | 305,375                     |
| Long-term debt, net                            | <u>5,734,912</u>            |
| Total liabilities                              | 6,991,239                   |
| Net assets:                                    |                             |
| Without donor restrictions                     | 5,956,108                   |
| With donor restrictions                        | <u>320,916</u>              |
| Total net assets                               | <u><u>6,277,024</u></u>     |
| Total liabilities and net assets               | <u><u>\$ 13,268,263</u></u> |

The accompanying notes are an integral part of these statements.

Tempe Preparatory Academy

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

|   | Without<br>Donor<br>Restrictions | With Donor<br>Restrictions | Total               |
|---|----------------------------------|----------------------------|---------------------|
| Revenue and support:                    |                                  |                            |                     |
| State Equalization                      | \$ 3,885,586                     | \$ 99,846                  | \$ 3,985,432        |
| Classroom Site Funds                    |                                  | 468,828                    | 468,828             |
| Instructional Improvement Fund          |                                  | 17,508                     | 17,508              |
| Grants                                  | 567,745                          |                            | 567,745             |
| Contributions                           | 17,090                           | 270,298                    | 287,388             |
| Tax credit contributions                |                                  | 105,262                    | 105,262             |
| Student activities                      | 291,903                          |                            | 291,903             |
| Rental income                           | 50,650                           |                            | 50,650              |
| Classroom fees                          | 90,110                           |                            | 90,110              |
| Miscellaneous                           | 44,028                           |                            | 44,028              |
| Net assets released from restrictions:  |                                  |                            |                     |
| Satisfaction of donor requirements      | <u>881,854</u>                   | <u>(881,854)</u>           |                     |
| Total revenue and support               | 5,828,966                        | 79,888                     | 5,908,854           |
| Expenses:                               |                                  |                            |                     |
| Salaries                                | 2,988,727                        |                            | 2,988,727           |
| Payroll taxes and benefits              | 566,567                          |                            | 566,567             |
| Professional services                   | 270,760                          |                            | 270,760             |
| Supplies and instructional aids         | 415,071                          |                            | 415,071             |
| Office and administration               | 33,718                           |                            | 33,718              |
| Utilities                               | 48,946                           |                            | 48,946              |
| Repairs and maintenance                 | 49,395                           |                            | 49,395              |
| Insurance                               | 26,244                           |                            | 26,244              |
| Travel and training                     | 36,151                           |                            | 36,151              |
| Advertising                             | 306                              |                            | 306                 |
| Dues and fees                           | 18,514                           |                            | 18,514              |
| Other extracurricular activity expenses | 223,114                          |                            | 223,114             |
| Depreciation                            | 299,729                          |                            | 299,729             |
| Amortization                            | 10,930                           |                            | 10,930              |
| Interest                                | 196,707                          |                            | 196,707             |
| Miscellaneous                           | <u>181,271</u>                   |                            | <u>181,271</u>      |
| Total expenses                          | <u>5,366,150</u>                 |                            | <u>5,366,150</u>    |
| Change in net assets                    | 462,816                          | 79,888                     | 542,704             |
| Net assets, beginning of year           | <u>5,493,292</u>                 | <u>241,028</u>             | <u>5,734,320</u>    |
| Net assets, end of year                 | <u>\$ 5,956,108</u>              | <u>\$ 320,916</u>          | <u>\$ 6,277,024</u> |

The accompanying notes are an integral part of these statements.

Tempe Preparatory Academy

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

|   |                     |
|---|---------------------|
| Cash flows from operating activities:   |                     |
| Change in net assets  | \$ 542,704          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |
| Depreciation  | 299,729             |
| Amortization of loan issuance costs   | 10,930              |
| Capital campaign contributions  | (107,426)           |
| Changes in:   |                     |
| Due from government   | (43,218)            |
| Pledges receivable, net   | (84,496)            |
| Prepaid expenses and other assets   | (15,154)            |
| Accounts payable  | 20,900              |
| Accrued payroll and related   | 25,734              |
| Other liabilities   | 117,701             |
| Deposits held for others  | 24,647              |
| Net cash provided by operating activities   | <u>792,051</u>      |
| Cash flows from investing activities:   |                     |
| Purchases of property and equipment   | <u>(1,348,158)</u>  |
| Net cash used by investing activities   | (1,348,158)         |
| Cash flows from financing activities:   |                     |
| Proceeds from the issuance of long-term debt  | 555,254             |
| Payments on long-term debt  | (16,869)            |
| Collections of capital campaign contributions   | <u>225,383</u>      |
| Net cash provided by financing activities   | <u>763,768</u>      |
| Net increase in cash  | 207,661             |
| Cash, beginning of the year   | <u>3,501,427</u>    |
| Cash, end of the year   | <u>\$ 3,709,088</u> |
| <u>Supplemental disclosure of cash flow information</u>                                     |                     |
| Cash paid for interest  | <u>\$ 170,114</u>   |
| <u>Supplemental disclosure of noncash investing and financing activities</u>                |                     |
| Leased assets obtained in exchange for new operating lease liabilities                      | <u>\$ 489,585</u>   |

The accompanying notes are an integral part of these statements.

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tempe Preparatory Academy (the Academy) is a 501(ac)(3) non-profit corporation established in the State of Arizona in 1995 to operate a charter school. The Academy enables students in seventh through twelfth grade to acquire critical reasoning and communication skills and to explore the cultural and scientific achievements that are at the heart of the liberal arts and sciences. The Academy operates under a charter contract with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. The Academy is related to Tempe Preparatory Foundation (the Foundation) through common members of its Board of Directors. There were no significant transactions between the Academy and the Foundation during the year ended June 30, 2022.

The significant accounting policies of the Academy follow:

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*. The Academy 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.

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: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending 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 depending on the nature of the restriction. 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.

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

Continued

Revenue Recognition: The majority of the Academy's revenue arrangements generally consist of a single performance obligation to transfer promised services over time.

Due from Government: Due from government consists mainly of state approved payments to the Academy to operate the charter school. The Academy has never experienced any losses due to non-payment, and expects none from the June 30, 2022 balances, and therefore has not established an allowance for uncollectibility.

Pledges Receivable, Net: Pledges receivable are stated at the net amount management expects to collect from outstanding balances. Pledges receivable are recognized as revenue when an unconditional promise to give is received, and are stated at the net present value of expected cash flows, less an estimated allowance for doubtful accounts.

Prepaid Expenses: Prepaid expenses consist of goods and/or services purchased before June 30, 2022 that are to be used subsequent to year end.

Property and Equipment: All acquisitions of land and improvements, buildings and improvements, and furniture, fixtures and equipment with a cost of \$1,000 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:

|                                   |            |
|-----------------------------------|------------|
| Land improvements                 | 5 years    |
| Buildings and improvements        | 5-40 years |
| Furniture, fixtures and equipment | 3-15 years |

Loan Issuance Costs: Loan issuance costs and origination fees are deferred and amortized over the term of the associated loans using the straight-line method. Amortization of the loan issuance costs totaling \$10,930 was included as part of interest expense in the Statement of Activities.

Deposits Held for Others: Deposits held for others consist of required student deposits for textbooks.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in Note 8. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

Continued

Income Taxes: The Academy is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(ac)(3) of the Internal Revenue Code and similar state provisions. However, income from certain activities not directly related to the Academy's tax-purpose is subject to taxation as unrelated business income. The Academy believes that no provision for income taxes is necessary as of June 30, 2022.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Academy monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Academy has the following financial assets as of June 30, 2022 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  | \$ 3,709,088   |
| Due from government                               | 104,845        |
| Pledges receivable, net                           | <u>165,623</u> |
| Total financial assets included in current assets | 3,979,556      |

Less amounts unavailable for general expenditure within one year:

|                                 |                  |
|---------------------------------|------------------|
| Classroom Site Funds carryover  | (140,931)        |
| Results-Based Funding carryover | (14,362)         |
| Donor restricted contributions  | <u>(165,623)</u> |

Total financial assets available to meet cash needs for general expenditures within one year

\$ 3,658,640

In addition to financial assets available to meet general expenditures over the year, the Academy 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.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Academy places its cash with high quality financial institutions. At times, such cash may be in excess of FICA insurance limits. The Academy has not experienced any losses in such accounts and believes it is not exposed to any significant risks on cash.

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 4 - PLEDGES RECEIVABLE, NET

Pledges receivable consists of amounts pledged to the Academy's Community Investment Program for the subsequent school year and capital campaign for campus improvements. Pledges receivable totaled \$185,603 at June 30, 2022, which is recorded net of an allowance for unelectable pledges of \$19,980.

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2022:

In April 2020, the Academy entered into a financing agreement in the form of Education Facility Revenue Bonds (Series 2020), issued by the Industrial Development Authority of the County of Maricopa for a maximum amount of \$6,932,000. Funds were drawn down during the year to finance construction of the Academy's school site. The loan matures on April 30, 2035. Interest only payments are due monthly at the rate of 3.25% on the outstanding balance until June 2, 2022, at which point the outstanding principal and interest payments ranging from a minimum of \$28,846 to a maximum of \$43,749 are due over the remaining term of the bond. The debt is secured by a deed of trust on real property and through assignment of State Equalization revenue.

\$ 6,085,158

Less current portion

209,981

Less summarized loan issuance costs

140,265  
\$ 5,734,912

The future minimum payments on the note payable are as follows:

Year ending June 30:

|                                     |                     |
|-------------------------------------|---------------------|
| 2023                                | \$ 209,981          |
| 2024                                | 216,484             |
| 2025                                | 224,248             |
| 2026                                | 231,750             |
| 2027                                | 239,503             |
| Thereafter                          | <u>4,963,192</u>    |
|                                     | 6,085,158           |
| Less summarized loan issuance costs | <u>140,265</u>      |
| Total                               | <u>\$ 5,944,893</u> |

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 5 - LONG-TERM DEBT (continued)

Under the loan agreement, the Academy is required to comply with certain financial covenants. As of June 30, 2022, the Academy was in compliance with these covenants.

NOTE 6 - OPERATING LEASES

The Academy maintains a lease for its gym and various equipment under the provisions of long-term leases classified as operating leases.

During the year ended June 30, 2022, the components of lease expense were as follows:

|                       |           |
|-----------------------|-----------|
| Operating lease cost: |           |
| Fixed rent expense    | \$ 83,529 |

Supplemental information for the statement of activities for the year ended June 30, 2022 related to leases was as follows:

|   |            |
|---|------------|
| Operating lease right-of-use asset, net | \$ 409,052 |
| Operating lease liabilities:            |            |
| Current portion of long-term debt       | 103,677    |
| Long-term debt                          | 305,375    |

During the year ended June 30, 2022, Academy 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                               | \$ 83,529  |
| Non-cash investing and financing activities:                            |            |
| Right-of-use asset obtained in exchange for lease obligation            | \$ 489,585 |

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 6 - OPERATING LEASES (continued)

Future minimum operating lease commitments are as follows:

|                                  |    |                       |
|----------------------------------|----|-----------------------|
| Year ending June 30,             |    |                       |
| 2023                             | \$ | 100,050               |
| 2024                             |    | 100,050               |
| 2025                             |    | 100,050               |
| 2026                             |    | 100,050               |
| 2027                             |    | <u>16,521</u>         |
|                                  |    | 416,721               |
| Less: interest                   |    | <u>(7,669)</u>        |
| Present value of lease liability | \$ | <u><u>409,052</u></u> |

Because the Academy did not have access to the rate implicit in the leases, the Academy utilized the appropriate US Treasury Bill rate relative to the lease term as the discount rate. The weighted average discount rate on the operating leases was 0.89%

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions activity for the year ended June 30, 2022 was as follows:

|                                | <u>Beginning<br/>Balance</u> | <u>Contributions</u> | <u>Releases</u>    | <u>Ending<br/>Balance</u> |
|--------------------------------|------------------------------|----------------------|--------------------|---------------------------|
| Time restricted contributions  | \$ 58,909                    | \$ 162,872           | \$ (78,376)        | \$ 143,405                |
| Capital campaign               | 140,175                      | 107,426              | (225,383)          | 22,218                    |
| Classroom Site Funds           | 6,961                        | 468,828              | (334,858)          | 140,931                   |
| Instructional Improvement Fund | 19,544                       | 17,508               | (37,052)           |                           |
| Results-Based Funding          | 15,439                       | 99,846               | (100,923)          | 14,362                    |
| Tax credit contributions       |                              | <u>105,262</u>       | <u>(105,262)</u>   |                           |
| Total                          | <u>\$ 241,028</u>            | <u>\$ 961,742</u>    | <u>\$(881,854)</u> | <u>\$ 320,916</u>         |

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - FUNCTIONAL EXPENSE CLASSIFICATION

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, which are allocated on a square footage basis; salaries, payroll taxes and benefits, professional services, supplies and instructional aids, office administration, dues and fees, and miscellaneous are allocated on the basis of estimates of time and effort.

The following summarizes Academy's expenses by function for the year ended June 30, 2022:

|  | Primary and<br>Secondary<br>Education | General and<br>Administrative | Fundraising      | Total               |
|--|---------------------------------------|-------------------------------|------------------|---------------------|
| Salaries                                   | \$ 2,696,044                          | \$ 249,979                    | \$ 42,704        | \$ 2,988,727        |
| Payroll taxes and benefits                 | 530,243                               | 34,336                        | 1,988            | 566,567             |
| Professional services                      | 149,665                               | 112,317                       | 8,778            | 270,760             |
| Supplies and instructional aids            | 302,889                               | 109,369                       | 2,813            | 415,071             |
| Office and administration                  | 20,955                                | 12,763                        |                  | 33,718              |
| Utilities                                  |                                       | 48,946                        |                  | 48,946              |
| Repairs and maintenance                    |                                       | 49,395                        |                  | 49,395              |
| Insurance                                  |                                       | 26,244                        |                  | 26,244              |
| Travel and training                        | 36,151                                |                               |                  | 36,151              |
| Advertising                                |                                       | 306                           |                  | 306                 |
| Dues and fees                              | 17,891                                | 623                           |                  | 18,514              |
| Other extracurricular activity<br>expenses | 223,114                               |                               |                  | 223,114             |
| Depreciation                               | 149,864                               | 149,865                       |                  | 299,729             |
| Amortization                               |                                       | 10,930                        |                  | 10,930              |
| Interest                                   | 26,593                                | 170,114                       |                  | 196,707             |
| Miscellaneous                              | 113,566                               | 67,705                        |                  | 181,271             |
| Total expenses                             | <u>\$ 4,266,975</u>                   | <u>\$ 1,042,892</u>           | <u>\$ 56,283</u> | <u>\$ 5,366,150</u> |

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: The Academy'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. Such reviews could result in adjustments or withholding of State Equalization assistance.

Tempe Preparatory Academy

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE 10 - ECONOMIC DEPENDENCY

For the year ended June 30, 2022, approximately 86% of the Academy's revenue was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), and Instructional Improvement Funds. 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 the Academy's future revenues.

NOTE 11 - RETIREMENT PLAN

The Academy maintains a 401(k) retirement plan for all qualifying employees. Employees are eligible to participate in the plan upon hiring, but are not eligible for matching contributions until after one year of employment at the Academy. The Academy provides discretionary matching contributions. During the year ended June 30, 2022, the Academy contributed \$102,005 to its employees' retirement plan accounts.

NOTE 12 - CONDITIONAL CONTRIBUTIONS

The Academy received conditional contributions during the fiscal year ended June 30, 2022. Conditional contributions are recorded when the donor-imposed conditions are substantially met. Certain conditions are required to be met by the Academy in the subsequent years in order to earn and receive these amounts. As of June 30, 2022, amounts awarded but not yet earned totaled \$16,227. While management believes that the Academy will meet these conditions, they had not been met as of the year ended June 30, 2022. Accordingly, no amount has been recorded for these conditional contributions as a receivable in these financial statements.

NOTE 13 - SUBSEQUENT EVENTS

The Academy has evaluated subsequent events through November 15, 2022, 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, 2022 that would require adjustment to or disclosure to the financial statements.



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

To the Board of Directors of  
Tempe 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 financial statements of Tempe Preparatory Academy (the Academy), 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 November 15, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy'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 the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 the Academy'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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fester & Chapman, PLLC*

November 15, 2022