

AMERICAN LEADERSHIP ACADEMY, INC.  
Mesa, Arizona  
FINANCIAL STATEMENTS  
Year Ended June 30, 2022



AMERICAN LEADERSHIP ACADEMY, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
American Leadership Academy, Inc  
Mesa, Arizona

### **Opinion**

We have audited the accompanying financial statements of American Leadership Academy, Inc (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Leadership Academy, Inc as of June 30, 2022, and the changes in their net assets and their 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of American Leadership Academy, 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 opinions.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 American Leadership Academy, Inc's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditors' 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 auditors' 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 American Leadership Academy, 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 American Leadership Academy, 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.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Covenant Ratio, Days Cash on Hand and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 October 13, 2022, on our consideration of American Leadership Academy, 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 American Leadership Academy, 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 American Leadership Academy, Inc's internal control over financial reporting and compliance.

*Henry + Horne, LLP*

Tempe, Arizona  
October 13, 2022

AMERICAN LEADERSHIP ACADEMY, INC  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 20,708,479
Restricted cash and cash equivalents	25,230,273
Accounts receivable	35,522
Due from governments	1,149,815
Prepaid expenses and other assets	<u>759,328</u>

TOTAL CURRENT ASSETS 47,883,417

NONCURRENT ASSETS

Finance lease right of use assets, net	870,737
Property and equipment, net	<u>246,499,223</u>

TOTAL NONCURRENT ASSETS 247,369,960

TOTAL ASSETS \$ 295,253,377

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 3,946,462
Accrued payroll and other expenses	6,281,575
Unearned revenues	381,089
Line of credit	3,500,000
Current portion of finance lease liability	222,708
Current portion of bonds and loans payable	<u>3,716,889</u>

TOTAL CURRENT LIABILITIES 18,048,723

NONCURRENT LIABILITIES

Finance lease liability, net of current portion	537,368
Long-term debt, net of current portion and unamortized costs	<u>278,514,367</u>

TOTAL NONCURRENT LIABILITIES 279,051,735

TOTAL LIABILITIES 297,100,458

NET ASSETS

Without donor restrictions	(1,847,081)
With donor restrictions	<u>-</u>

TOTAL NET ASSETS (1,847,081)

TOTAL LIABILITIES AND NET ASSETS \$ 295,253,377

AMERICAN LEADERSHIP ACADEMY, INC  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Equalization and state funding	\$ 92,552,741	\$ -	\$ 92,552,741
Federal grants	11,756,925	-	11,756,925
Food service revenue	2,635,907	-	2,635,907
School activities revenue	789,198	-	789,198
School sales and events revenue	1,572,146	-	1,572,146
Contributions and grants	289,737	700	290,437
Preschool tuition and miscellaneous income	1,844,421	-	1,844,421
Release from restrictions	3,096	(3,096)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>111,444,171</b>	<b>(2,396)</b>	<b>111,441,775</b>
<b>EXPENSES</b>			
Program expenses			
Instruction and operations	49,547,129	-	49,547,129
Interest and bond issuance costs and premium interest, net	15,274,573	-	15,274,573
Other program related expenses	25,236,907	-	25,236,907
Professional fees	3,382,285	-	3,382,285
Supporting services			
Administrative operations	3,234,640	-	3,234,640
Office supplies and other	15,830,207	-	15,830,207
<b>TOTAL EXPENSES</b>	<b>112,505,741</b>	<b>-</b>	<b>112,505,741</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,061,570)</b>	<b>(2,396)</b>	<b>(1,063,966)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>(785,511)</b>	<b>2,396</b>	<b>(783,115)</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ (1,847,081)</b>	<b>\$ -</b>	<b>\$ (1,847,081)</b>

See accompanying notes.

AMERICAN LEADERSHIP ACADEMY, INC  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2022

	<u>Program Expense</u>	<u>Management and General</u>	<u>Total</u>
Personnel costs			
Salaries and wages	\$ 43,525,324	\$ 2,290,807	\$ 45,816,131
Employee benefits and payroll taxes	<u>5,348,385</u>	<u>943,833</u>	<u>6,292,218</u>
Total personnel costs	<u>48,873,709</u>	<u>3,234,640</u>	<u>52,108,349</u>
Advertising	471,676	-	471,676
Amortization - right of use assets	673,420	-	673,420
Bond issuance costs and premium interest, net	136,592	-	136,592
Depreciation	8,141,216	-	8,141,216
Facilities	3,916,938	206,155	4,123,093
Food service	4,248,291	-	4,248,291
Insurance	558,623	-	558,623
Interest	15,137,981	-	15,137,981
Miscellaneous and other expenses	1,438,443	479,481	1,917,924
Professional fees	3,382,285	13,529,141	16,911,426
Supplies	<u>6,461,720</u>	<u>1,615,430</u>	<u>8,077,150</u>
Total functional expenses	<u>\$ 93,440,895</u>	<u>\$ 19,064,847</u>	<u>\$ 112,505,741</u>

See accompanying notes.

AMERICAN LEADERSHIP ACADEMY, INC  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (1,063,966)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	8,141,216
Amortization - right of use assets	673,420
Bond issuance costs and premium interest, net	136,592
(Gain) loss on disposal of property and right of use assets	(20,699)
Decrease (increase) in:	
Accounts receivable	(20,764)
Due from governments	(152,097)
Prepaid expenses and other assets	(667,924)
Increase (decrease) in:	
Accounts payable	2,610,620
Accrued payroll and other expenses	1,984,673
Unearned revenue	(235,351)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>11,385,720</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of assets	58,653
Purchases of property and equipment	<u>(18,181,279)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(18,122,626)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowings from line of credit	5,500,000
Payment to line of credit	(5,500,000)
Payments on finance lease liabilities	(14,683,094)
Bond and note proceeds	219,830,041
Bond premiums issued	5,073,141
Payments on bonds and notes payable	<u>(194,121,900)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>16,098,188</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,361,282
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>36,577,470</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 45,938,752</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	\$ 20,708,479
Restricted cash and cash equivalents	<u>25,230,273</u>
Total cash and cash equivalents	<u>\$ 45,938,752</u>
SUPPLEMENTAL INFORMATION	
Cash paid for interest	<u>\$ 15,137,981</u>

See accompanying notes.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

American Leadership Academy, Inc. (the School) is an Arizona not-for-profit corporation organized in 2009 to establish and operate a charter school which offers a strong academic foundation focusing on personal achievement and mastery; a recognition and appreciation for America's freedoms, history, and world contributions. The School operates under a Charter Contract with the Arizona State Board of Education which mandates policy and operational guidelines. During the year ended June 30, 2022, the School provided educational services to students in the kindergarten through twelfth grades in Florence, Gilbert, San Tan Valley, Mesa, and Queen Creek, Arizona and was funded primarily through state equalization assistance. Additionally, the school operates a pre-school program that is not funded by the state.

Basis of Presentation and Net Assets

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

The School reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions includes net assets available for use in general operations and not subject to donor or grantor restrictions. Net assets with donor restrictions represents net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the School considers all investments with an original maturity of three months or less at date of acquisition to be cash equivalents.

Accounts Receivable and Due from Governments

Accounts receivables consist of amounts due for services performed for other schools and are stated at the amount management expects to collect under the terms of the service contracts and agreements. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. Management evaluates the collectability of its accounts receivable based on a combination of factors, including an assessment of the current status of individual contracts.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Accounts Receivable and Due from Governments (Continued)

The School recognizes income from services performed for other schools and from funds provided by the State of Arizona in connection with its charter agreements. Due to the concentrated nature of the School's income sources and historical collectability trends, the School does not provide an allowance for account receivable.

Due from governments consists of amounts due from funds provided by the State of Arizona and federal government and are stated at the amount management expects to collect under the terms of the grant agreements. Due to the concentrated nature of the School's income sources and historical collectability trends, the School does not provide an allowance for grants receivable.

Property and Equipment

Acquisitions of property and equipment with a cost of \$3,000 or more and an estimated life of one year or more are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at date of donation. Depreciation of vehicles, furniture and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

The School reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Right of use assets and lease liabilities

The School leases certain facilities and equipment. The determination of whether an arrangement is a lease is made at the lease's inception. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, a contract or (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Right of use assets and lease liabilities (Continued)

Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Right of use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. The School has elected to apply the short-term lease exception to all leases with a term of one year or less. There were no short-term leases in effect during the year ended June 30, 2022. Also, there are no leases that include non-lease components.

Debt Issuance Costs

Costs associated with obtaining long-term debt financing have been capitalized and are amortized on a straight-line basis over the repayment term of the related debt with amortized costs included as bond issuance costs and premium interest expense. Debt issuance costs are presented net of accumulated amortization and are included with long-term debt on the statement of financial position.

Revenue Recognition

The School recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606. State equalization funds, federal grants (including federal food service revenue), and state grants are determined to be contributions and therefore not subject to ASC Topic 606.

Proposition 123 funding (in 2016) and Classroom Site funds (Proposition 301 in 2000), which are included in equalization and state funding on the statement of activities, originated from approvals by local voters to increase certain taxes to provide this funding to schools. Because this funding is involuntary it does not meet the definition of a contribution and is an exchange transaction, subject to ASC Topic 606. This funding is generally received in monthly payments from the Arizona Department of Education and is based on a dollar amount per student and relates only to the school year that occurs within the fiscal year of the School. 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. No amounts are received in advance by the funding source, which is the Arizona Department of Education.

The Classroom site funds (CSF) received in fiscal year 2022 was \$9,237,621 and for Proposition 123 was \$717,462. The amounts included in due from governments as of June 30, 2022 and 2021 were \$0.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Contributions

Contributions and grants are received and recorded as either support with donor restrictions or as support without donor restrictions depending on the existence and/or nature of any 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the School reports the support as net assets without donor restrictions.

Functional Expenses

All expenses directly associated with the operation of school campuses, including transportation, food service and salaries of on-site administrators, are considered to be program expenses. Salaries for central services and operation of maintenance of plant operations as defined by the USFRCS are allocated to general and administrative expenses. All other administrative expenses functions are covered by the school's charter management organization (Charter One) and are included in professional services and allocated to management and general expenses.

Depreciation and interest expense are related to the school campuses and as a result the entire amount is allocated to program expenses. All general and administrative expense functions for the school are handled by Charter One and therefore the costs associated with the Charter One facility is not included as expenses on the School's statements. Additionally, all other facility expenses are included in program and include utilities, cleaning services, repairs and maintenance. Supplies and other expenses are allocated based on functions similar to salaries. Supplies and other expenses that fall within functions of central services and operation of maintenance of plant operations are allocated to management and general expenses.

Income Tax Status

American Leadership Academy, Inc qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code), and accordingly, there is no provision for corporate income taxes in the accompanying financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Income Tax Status (Continued)

The School follows accounting standards for uncertainty in income taxes, which require that tax positions initially need to be recognized in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2022, the School had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The School recognizes interest and penalties associated with income tax in operating expenses. During the year ended June 30, 2022, the School did not have any income tax related interest and penalty expense.

Management's Use of Estimates

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

Date of Management's Review

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 13, 2022, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The School regularly monitors liquidity required to meet its operating needs and other contractual commitments. Sources of liquidity include cash and cash equivalents and a line of credit. See Note 8 for information about the School's line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the School considers all expenditures related to its ongoing activities, including both program and administrative expenses. In addition to financial assets available to meet general expenditures over the next 12-months, the School operates within a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows which identifies the sources and uses of the School's cash and shows positive cash generated by operations. The School has a requirement to maintain a minimum of 45 days cash on hand as of the end of the fiscal year.

AMERICAN LEADERSHIP ACADEMY, INC  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2022

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

As of June 30, 2022, the following table shows the total financial assets held by the School and the amounts of those financial assets that could be readily available to meet general expenditures within one year of the statement of financial position date:

	Financial Assets	Available for general expenditures within the next year
Cash	\$ 20,708,479	\$ 20,708,479
Cash restricted for bond and state funding:		
Cash with trustee - taxes and insurance	30,998	-
Cash with trustee - debt reserve fund	19,622,641	-
Cash with trustee - bond reserve fund	1,633,974	1,633,974
Cash with trustee - repair and replacement fund	220,558	-
Cash with trustee - bond, revenue, expense fund	3,475,734	2,935,928
State Restricted funding - CSF and Instructional Improvement	246,368	246,368
Accounts receivable	35,522	35,522
Due from governments	1,149,815	1,149,815
	<u>\$ 47,124,089</u>	<u>\$ 26,710,086</u>

NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that subject the School to potential concentrations of credit risk consist principally of cash and cash equivalents, and due from governments. The School maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Receivables from the State of Arizona represent approximately 97% of the total receivables.

Of the School's revenue for the year ended June 30, 2022, approximately 94% was derived from funds passed through or provided by the Arizona Department of Education. Collection from the state is reasonably assured, provided that the School complies with contract terms stipulated in its contract with the Arizona State Board for Charter Schools. Changes in state funding levels for charter schools could have a significant impact on the School's ability to operate.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 4 RESTRICTED CASH AND BOND RESERVES

Restricted cash and bond reserves at June 30, 2022 consists of:

Classroom site funds	\$ 71,531
Instructional improvement project	174,837
Taxes and insurance reserve fund	30,998
Debt reserve fund	19,622,641
Bond reserve fund	1,633,974
Repair and replacement fund	220,558
Bond, revenue, expense fund	3,475,734
	<hr/>
	\$ 25,230,273

Classroom site funds are carryforward balances of monies received for teacher compensation increases, performance-based bonuses and other employment related costs. These funds are received and restricted by the state of Arizona under Proposition 301.

On December 1, 2015, October 31, 2019, November 1, 2021 and March 1, 2022, the School entered into loan and note agreements under which the issuer of the agreements sold registered bonds to investors. Certain proceeds of funds issued to the School in conjunction with the agreements are held by the trustee under two indenture of trust agreements but are considered assets of the School. Bond assets are administered by the current trustee, UMB Bank, National Association, are reported as restricted cash, and consist of the following accounts:

Debt Service Reserve Funds

The opening balances of the debt service reserve funds were set up by the original bond trustee to make note payments when monies in the bond fund are insufficient to make the required semi-annual payments. Such payments are made by the trustee in order to continue to service the bond. The fund is not immediately available to the School. Any remaining balance will be repaid when the bonds mature in June 2045, June 2052 and June 2057.

Bond Reserve Fund

The bond reserve funds were initially setup for Series 2012 and 2015. As part of the Series 2019, 2021, and 2022 indenture this fund is used for any additional accrued interest, to pay capitalized interest, disbursement from revenue funds and all other monies received by the Trustee. There was no required balance as of the issuance of Series 2022 Bonds. If necessary, and upon the request of the School, portions of the funds may be transferred to the bond fund for payment of principal, premium, and interest or for disbursement to the School.

AMERICAN LEADERSHIP ACADEMY, INC  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2022

NOTE 4 RESTRICTED CASH AND BOND RESERVES (Continued)

Repair and Replacement fund

The School is required to make payments equal to the Repair and Replacement Fund monthly deposit for deposit on each scheduled monthly payment date to the Repair and Replacement Fund until amounts on deposit in the Repair and Replacement Fund equal the Repair and Replacement Fund requirement. Amounts on deposit in the Repair and Replacement fund may be used for the purpose of paying the cost of extraordinary maintenance and replacements which may be required to keep the Pledged Facilities in sound condition, including but not limited to, replacement of equipment, replacement of any roof or other structural component, exterior painting and the replacement of heating, air conditioning, plumbing and electrical equipment. Monies in the Repair and Replacement Fund may be used for the payment of the principal of, premium, if any, and interest on the Series 2015, 2019, 2021 and 2022 Bonds in the event monies in the Bond Fund and the subaccount of the Debt Service Reserve Fund related to the Series 2015, 2019, 2021, and 2022 Bonds are insufficient.

Taxes and insurance fund

The opening balances of the taxes and insurance fund were set up to pay for any additional taxes and fees that were related to the initial bond transactions or future transactions incurred as they relate to existing bond series.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2022 consist of:

Land	\$ 51,121,898
Curriculum	5,079,425
Leasehold improvements	2,963,501
Buildings and improvements	191,926,968
Furniture and equipment	<u>14,050,265</u>
	265,142,057
Accumulated depreciation	<u>(34,134,327)</u>
	231,007,730
Construction in process	<u>15,491,493</u>
Net property and equipment	<u><u>\$ 246,499,223</u></u>

Depreciation expense was \$8,141,216 for the year ended June 30, 2022.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 6 RIGHT OF USE ASSETS

Right of use assets represents the School's right to use an underlying asset for the lease term at June 30, 2022 consist of:

Right of use asset - facilities	<u>\$ 1,515,285</u>
	1,515,285
Accumulated amortization	<u>(644,548)</u>
Net book value of the assets	<u><u>\$ 870,737</u></u>

Amortization expense was \$673,420 for the year ended June 30, 2022. See note 10 for related finance lease liability.

NOTE 7 UNEARNED REVENUE

Grant funding that is provided in advance and not fully expended is recognized as unearned revenue. This funding will be recognized as earned when corresponding services have been rendered. In the current year, the only advanced funding was received through the Elementary and Secondary School Emergency Relief fund related to CARES funding for schools. The total amount received was not spent as of year-end. The remaining balance is unearned for a total of \$381,089 as of June 30, 2022.

NOTE 8 LINE OF CREDIT

The School maintains a \$3,500,000 bank line of credit dated March 10, 2021. The line has a two-year term which matures February 24, 2023. Interest is calculated at a rate of 0.5 percentage points over the National Prime Rate with a floor of 4.75% (4.75% at June 30, 2022), and is payable monthly. At June 30, 2022, the full \$3,500,000 was outstanding on this line. The line of credit is secured by all assets of the School.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 9 LONG-TERM DEBT

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

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2022
Series 2015 Bonds Payable	4.600 - 5.625%	6/15/2045	\$ 22,220,000
Series 2019 Bonds Payable	4.00 - 5.00%	6/15/2052	37,920,000
Series 2021 Bonds Payable	4.00%	6/15/2057	20,250,000
Series 2022 Bonds Payable	4.00%	6/15/2057	186,960,000
First International Loan	5.25%	4/28/2025	127,252
CLI Capital Loan	7.50%	6/1/2026	15,944,838
GM Financial Auto Loan	7.95%	7/31/2023	8,934
GM Financial Auto Loan	7.95%	7/31/2023	8,050
GM Financial Auto Loan	7.95%	7/31/2023	7,195
GM Financial Auto Loan	7.95%	7/31/2023	8,050
GM Financial Auto Loan	6.84%	11/30/2023	7,287
Wells Fargo Auto Loan	6.79%	4/30/2023	3,807
Wells Fargo Auto Loan	6.79%	4/30/2023	3,809
First International Loan	5.25%	9/28/2024	1,220,444
Wells Fargo Auto Loan	7.99%	9/30/2024	12,490
Total long-term debt			284,702,156
Net debt issuance costs			(9,489,418)
Net premium			7,018,518
Long-term debt, net of debt issuance costs			282,231,256
Current maturities			(3,716,889)
Long-term debt, net of current portion and debt issuance costs			\$ 278,514,367

Annual maturities of long-term debt outstanding after June 30, 2022, are as follows:

Years Ending June 30,	
2023	\$ 3,716,889
2024	3,758,045
2025	3,913,012
2026	19,249,210
2027	4,050,000
Thereafter	250,015,000
Total annual maturities	\$ 284,702,156

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 9 LONG-TERM DEBT (Continued)

The terms of the bonds and loans payable agreements are as follows:

Series 2015, 2019, 2021 and 2022

On December 17, 2015, the School finalized a loan agreement, dated December 1, 2015, with the Industrial Development Authority of Pima County ("Pima IDA"). Concurrent with the loan agreement, Pima IDA issued "Series 2015" Educational Facility Revenue bonds. The bonds have an original principal amount of \$24,890,000 and mature June 15, 2045. The interest on the bonds is between 4.600% and 5.625%. The bonds were issued to refund the Series 2012 bonds as well as fund multiple capital projects.

On October 22, 2019, the School finalized a loan agreement, dated October 1, 2019, with Pima IDA. Concurrent with the loan agreement, Pima IDA issued "Series 2019" Educational Facility Revenue bonds. The bonds have an original principal amount of \$40,475,000 and mature June 15, 2052. The interest on the bonds is between 4.000% and 5.000%. The bonds were issued to fund multiple capital projects, refinance previous note and lease obligations for various school campus facilities and land for \$14,115,032.

On November 1, 2021, the School finalized a loan agreement with Pima IDA. Concurrent with the loan agreement, Pima IDA issued "Series 2021" Educational Facility Revenue bonds. The bonds have an original principal amount of \$20,250,000 and mature June 15, 2057. The interest on the bonds is 4.0%. The bonds were issued to fund the purchase of Queen Creek Fieldhouse facilities, land and cafeteria for \$12,953,799. The remaining funds will be used to purchase additional buildings and equipment for the expansion of schools.

On March 1, 2022, the School finalized a loan agreement, refunding Series 2017, with Pima IDA. Concurrent with the loan agreement, Pima IDA issued "Series 2022" Educational Facility Revenue bonds. The bonds have an original principal amount of \$186,960,000 and mature June 15, 2057. The interest on the bonds is 4.0%. The bonds were issued to refund Series 2017 bond for various school campus facilities and capital projects for \$188,940,000.

UMB Bank maintains several cash and short-term investment accounts as the bond trustee. Under the terms of the loan agreement, the School is required to irrevocably pledge substantially all its revenues toward payment of its debt obligations through the various accounts held in trust. Remaining monies are then transferred monthly to operating accounts once certain debt provisions are met. The amounts held by the trustee are reported as restricted cash for financial statement presentation.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 9 LONG-TERM DEBT (Continued)

Series 2015, 2019, 2021 and 2022 (Continued)

Principal and interest payments are withheld monthly by the trustee from the state equalization payment. Principal is disbursed annually and interest semi-annually from the trustee to pay the bond holders. The note is secured by the assets and continuing revenues of the School. In addition to making consistent payments toward interest and principal due, the School has agreed to comply with all charter school laws, maintain appropriate title and liability insurance, and submit to an annual financial statement audit. If the School were to default materially on its loan obligations, the promissory note would be immediately due and payable.

The School is required to maintain a minimum debt service coverage ratio of 1.10 with respect to its Series 2015, 2019, 2021 and 2022 bond obligations. If the debt service coverage ratio is less than 1.0, the school is required to obtain a consultant to submit a written report and make recommendations with respect to revenues or other matters of the borrower which are relevant to increasing the debt service coverage ratio to at least 1.10. A failure to maintain a debt service coverage ratio of at least 1.00 shall constitute an event of default.

The School is required to maintain a minimum amount of cash on hand. The minimum cash on hand requirement for the fiscal year ended June 30, 2022 and all fiscal years thereafter is 45 days of cash. Failure to maintain more than 15 days less than the days cash on hand requirement constitutes an event of default. If the School were to default materially on its obligations, the notes would be immediately due and payable.

Loans and Notes Payable

The School financed the purchase of numerous vehicles with loans payable. The loans are payable in monthly installments, including interest, ranging from \$407 to \$883 with maturities ranging from April 2023 to September 2024. The loans are collateralized with the vehicles purchased with proceeds from the loans.

Commencing on April 2, 2018, the School issued a promissory note with First International Bank & Trust in the amount of \$281,998 to purchase school buses. The note is payable in monthly installments of \$4,044, including interest at 5.250%, maturing April 28, 2025. The note is collateralized by various vehicles owned by the School.

Commencing on September 28, 2017, the School issued a promissory note with First International Bank & Trust in the amount of \$3,394,840 for curriculum and buses. The note is payable in monthly installments of \$48,501, including interest at 5.250%, maturing September 28, 2024. The note is collateralized by the buses and curriculum owned by the School.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 9 LONG-TERM DEBT (Continued)

Loans and Notes Payable (Continued)

Commencing on June 11, 2021, the School issued a loan agreement with CLI Capital, in the amount of \$20,000,000 for the purchase of land and construction for a new school. The School is drawing down on the loan balance as construction progresses. The balance of the loan as of June 30, 2022 is \$15,944,838. The loan is payable in monthly principal and interest payments beginning September 1, 2022 calculated on a 30-year amortization schedule based on the outstanding principal balance of the loan on August 31, 2022. On June 1, 2026, the entire balance of principal and accrued interest is payable in full. The note is collateralized by the land purchased and building constructed with the proceeds.

NOTE 10 LEASES

Facility Leases

The School conducts its schooling operations from campus facilities, some of which are leased under lease agreements which expire on various dates through September 2024. Two of these lease agreements were with Schoolhouse Hawes, LLC for the use of a fieldhouse and cafeteria. During the year ended June 30, 2022, the underlying assets of these leases were purchased with the series 2021 bond. The total lease principal and interest paid during the year was \$513,167 and 321,382 for a builder tax fee. A former board member (through June 2017) of American Leadership Academy, Inc. is a member of Schoolhouse Hawes, LLC.

The remaining facility lease agreement has been entered into with Charter One, LLC for the use of a building for virtual instruction located in Mesa and has been determined to be a lease. The same former board member is an owner of Charter One. The payments include combined monthly payments ranging from \$7,317 to \$7,762. The discount rate used to calculate the lease liability is based on the implicit rate of the underlying lease with a weighted average discount rate of 5%. The total lease interest expense of this facility lease was \$8,473 and the principal payments were \$57,377 for the year ended June 30, 2022. The total future lease payments will be \$251,276.

Equipment Lease

The School is leasing equipment under a five-year noncancelable lease which expires March 2026. This agreement has been determined to be a finance lease. The payments are monthly fixed installments of \$13,824. The discount rate used to calculate the lease liability is based on the implicit rate of the underlying lease with a weighted average discount rate of 5%. The total lease interest expense of the equipment finance lease was approximately \$31,964 and principal payments were \$133,927 for the year ended June 30, 2022.

AMERICAN LEADERSHIP ACADEMY, INC  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2022

NOTE 10 LEASES (Continued)

Equipment Lease (Continued)

The following is a schedule of future minimum lease payments required for the above finance leases and a reconciliation to the finance lease liability as of June 30, 2022:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 222,708
2024	236,857
2025	178,646
2026	121,865
Total	<u>760,076</u>
Less: current portion	<u>(222,708)</u>
Long-term portion of lease liability	<u><u>\$ 537,368</u></u>

The weighted average remaining lease term is 4 years.

NOTE 11 RETIREMENT PLAN

The School established a 401(k) plan that covers all employees. Employees may contribute up to 100% of compensation not to exceed \$20,500 in 2022, not including catch-up contributions. The School may make a discretionary matching contribution to all employees with one year of service completed, which is determined annually by the board of directors. During the year ended June 30, 2022, the School made matching contributions of \$626,950.

NOTE 12 CONTINGENCIES

Compliance

The School's compliance with certain laws and regulations is subject to review by its sponsor. 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 normal operations. In the opinion of the School's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. No provision has been made in the financial statements for possible losses of this nature.

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022

NOTE 13 TRANSACTIONS WITH FORMER BOARD MEMBERS AND MANAGEMENT SERVICES

ALA Management Services, Inc. is a non-profit corporation that provides leased employees related to the on-site operation of charter schools such as teachers, principals and coaches. On August 1, 2011, the School entered into an agreement to provide leased employees from ALA Management Services, Inc. A former board member and founder of American Leadership Academy, Inc. is a member of ALA Management Services, Inc.'s board of directors. The terms of the service agreement were determined by the School's board of directors to be reasonable and more favorable to the School than other alternatives as ALA Management Services, Inc. only charges the School actual costs without any mark-up, thereby providing a significant benefit to the School when compared to other similar service providers. Total personnel costs as of June 30, 2022, including taxes and benefits, was \$52,108,349.

The School contracts with Charter One, LLC ("Charter One") for administrative support and other services pursuant to an Administrative Services Agreement entered into on July 1, 2020. The contract is effective for five years after its date. Charter One is an Arizona limited liability company and its members include the former board member and founder of the School noted above. Charter One provides services to the School including development services, operational services, academic services, financial services, and human resource services.

Pursuant to the agreement with Charter One, the School pays a 10% fee based on total annual gross revenue and a performance bonus for each student is enrolled at an ALA campus that has achieved an "A" or "B" letter grade from the Arizona Department of Education. Under the terms of the agreement, the School incurred a school management fee of \$10,830,891 and a grant management fee in the amount of \$120,000 per year. As of June 30, 2022, the total fee paid was \$10,950,891 for management services.

Western States, LLC provided the School with air conditioning system maintenance and repair services in the amount of \$307,409 during the year ended June 30, 2022. A former board member of the School is a member of this LLC. Way Construction Development, LLC provides construction and building services to the School at a discounted rate for building renovations. This company is owned, in part, by a former board member and founder of the School. The School paid a total of \$715,573 to Way Construction Development, LLC during the year ended June 30, 2022. Additionally, C1 Apparel, LLC is owned and operated by the son of the co-owner of Charter One. The business provides athletic uniforms and clothing apparel for the School's students. During the year ended June 30, 2022, the School paid \$357,043.

A former board member of the School is a member of Olive Charter, LLC and Pecos Charter, LLC. In fiscal year 2023, the School plans to lease two facilities from Pecos Charter, LLC for the Applied Technology and from Olive Charter, LLC for West Foothills campuses. A deposit of \$664,500 was paid prior to June 30, 2022 for the space at the West Foothills campus.

OTHER SUPPLEMENTARY INFORMATION

AMERICAN LEADERSHIP ACADEMY, INC  
DEBT SERVICE COVERAGE RATIO  
YEAR ENDED JUNE 30, 2022

The School has calculated a debt service coverage ratio and a days cash on hand calculation for all School debt and operations. The calculations are as follows for the year ended June 30, 2022:

**Debt Service Coverage Ratio**

Total pledged revenues	<u>\$ 99,663,451</u>
Operating Expenses:	
Expenses, all school operations	\$ 101,700,289
Less depreciation and amortization	(8,814,636)
Less interest - bond debt and other	<u>(15,274,573)</u>
Total operating expenses	<u>\$ 77,611,080</u>
Income available for debt service	
Total pledged revenues	\$ 99,663,451
Less operating expenses	<u>(77,611,080)</u>
Net income available for debt service	22,052,371
Divided by: debt service	<u>17,527,325</u>
Debt service coverage ratio	<u>1.26</u>

**Days Cash on Hand Cash**

Cash - unrestricted	\$ 20,708,479
Operating expense	92,885,653
Average Daily expense	254,481
Days Cash on hand	81
Days required	45

## COMPLIANCE SECTION



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
American Leadership Academy, Inc  
Mesa, 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 statement of financial position of American Leadership Academy, Inc (a nonprofit corporation)(the School), as of and for the year ended June 30, 2022, statement of activities, schedule of functional expense, cash flows and the related notes to the financial statements, which collectively comprise American Leadership Academy, Inc's basic financial statements for the year then ended, and have issued our report thereon dated October 13, 2022.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered American Leadership Academy, 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 American Leadership Academy, Inc's internal control. Accordingly, we do not express an opinion on the effectiveness of American Leadership Academy, 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 may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether American Leadership Academy, 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 non-compliance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Henry + Horne, LLP*

Tempe, Arizona  
October 13, 2022



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
American Leadership Academy, Inc  
Mesa, Arizona

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited American Leadership Academy, Inc's (the School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of American Leadership Academy, Inc's major federal programs for the year ended June 30, 2022. American Leadership Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, American Leadership Academy, Inc. 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, 2022.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of American Leadership Academy, Inc. and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of American Leadership Academy, Inc.'s compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to American Leadership Academy, Inc.'s federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on American Leadership Academy, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about American Leadership Academy, Inc.'s compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 American Leadership Academy, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of American Leadership Academy, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 American Leadership Academy, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*Henry + Horne, LLP*

Tempe, Arizona  
October 13, 2022

AMERICAN LEADERSHIP ACADEMY, INC  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Cluster Title	Pass-Through Grantor	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>U.S. Department of Agriculture</b>					
Nutrition Cluster					
National School Lunch Program	10.555	Nutrition Cluster	Arizona Department of Education	N/A	\$ 2,364,071
Total Nutrition Cluster					<u>2,364,071</u>
<b>Total U.S. Department of Agriculture</b>					<u>2,364,071</u>
<b>U.S. Department of Treasury</b>					
COVID-19 - Coronavirus Relief Fund	21.019		Arizona Department of Education	N/A	<u>616,440</u>
<b>Total U.S. Department of Treasury</b>					<u>616,440</u>
<b>U.S. Department of Education</b>					
Title I, Part A- Grants to Local Education Agencies	84.010		Arizona Department of Education	21FT1TTI-110319-01A	1,698,860 *
Title II-A Supporting Effective Instruction State Grants	84.367		Arizona Department of Education	21FT1TTII-110319-03A	194,356
Title III- English Language Acquisition State Grant	84.365		Arizona Department of Education	21FELLEP-110319-10A	5,496
Title IV- Student Support & Academic Enrichment	84.424		Arizona Department of Education	21FT4TIV-110319-01A	76,967
CTE Federal Perkins	84.048		Arizona Department of Education	21FCTDBG-110319-08A	104,413
Charter Schools Program State Educational Agencies Grant	84.282A		Arizona Department of Education	21FCSP26-110319-01A	122,445
COVID-19 - Charter Elementary and Secondary School Emergency Relief	84.425D		Arizona Department of Education	21FEESII-110319-01A	4,259,950 *
Special Education Cluster					
Special Education- Grants to States (IDEA, Part B)	84.027	Special Education	Arizona Department of Education	21FESCBG-110319-09A	1,118,534
Special Education- Preschool Grants (IDEA Preschool)	84.173	Special Education	Arizona Department of Education	21FECCBP-110319-37A	9,872
Total Special Education Cluster					<u>1,128,406</u>
<b>Total U.S. Department of Education</b>					<u>7,590,893</u>

See accompanying notes to schedule of expenditures of federal awards

AMERICAN LEADERSHIP ACADEMY, INC  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Cluster Title	Pass-Through Grantor	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>U.S. Department of Health and Human Services</b>					
Child Care and Development Fund Cluster					
COVID-19 - Child Care and Development Block Grant	93.575	Child Care and Development Fund		N/A	<u>160,000</u>
Total Child Care and Development Fund Cluster					<u>160,000</u>
Medicaid Cluster					
Medical Assistance Program	93.778	Medicaid Cluster	Public Consulting Group, Inc.	N/A	<u>53,349</u>
Total Medicaid Cluster					<u>53,349</u>
<b>Total U.S. Department of Health and Human Services</b>					<u>213,349</u>
<b>Total Expenditures of Federal Awards</b>					<u>\$ 10,784,753</u>

\* Denotes major program

AMERICAN LEADERSHIP ACADEMY, INC  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the American Leadership Academy, Inc under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with 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). Because the Schedule presents only a selected portion of the operations of American Leadership Academy, Inc, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the American Leadership Academy, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B) The American Leadership Academy, Inc has not elected to use the 12 percent negotiated indirect cost rate as allowed under the Uniform Guidance.

AMERICAN LEADERSHIP ACADEMY, INC  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?          X   none reported

Noncompliance material to the financial statements noted?        yes   X   no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?          X   none reported

Type of auditors’ report issued on compliance for each major program listed below Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?        yes   X   no

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
84.010	Title I, Part A- Grants to Local Education Agencies
84.425D	COVID-19- Elementary and Secondary School Emergency Relief

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

Auditee qualified as low-risk auditee?   X   yes        no

AMERICAN LEADERSHIP ACADEMY, INC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2022

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

No findings noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

No findings noted