

**Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)**

**Financial Statements  
and  
Independent Auditors' Reports**

**Years Ended June 30, 2022 and 2021**

## CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-14
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 <i>Government Auditing Standards</i> .....	15-16



## Independent Auditors' Report

To the Board of Directors of  
Arete Preparatory Academy  
Gilbert, Arizona

### **Report on the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Arete Preparatory Academy (ARA), a nonprofit organization and a subsidiary of GreatHearts Arizona (GreatHearts), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years 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 ARA as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years 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 the *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 ARA 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 opinion.

#### ***Responsibilities of Management's 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 ARA'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 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 ARA'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 ARA'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 4, 2022, on our consideration of ARA'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 School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARA's internal control over financial reporting and compliance.

*Fester & Chapman, PLLC*

November 4, 2022

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021
<b>ASSETS</b>		
Current assets:		
Cash	\$ 790,882	\$ 926,287
Investments	416,902	502,895
Due from government	4,951	6,797
Grants and other receivables	313,231	205,636
Prepaid expenses	116,445	78,248
Total current assets	1,642,411	1,719,863
Property and equipment:		
Leasehold improvements	135,051	121,326
Furniture, fixtures and equipment	355,584	333,949
Less accumulated depreciation	<u>(357,024)</u>	<u>(317,649)</u>
Property and equipment, net	133,611	137,626
Deposits	100	100
Total assets	<u>\$ 1,776,122</u>	<u>\$ 1,857,589</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 54,514	\$ 48,489
Accrued payroll and related	108,500	86,101
Deferred revenue	27,023	13,325
Due to related party	7,880	213,919
Deposits held for others	117,250	107,923
Total current liabilities	315,167	469,757
Net assets without donor restrictions	1,460,955	1,387,832
Total liabilities and net assets	<u>\$ 1,776,122</u>	<u>\$ 1,857,589</u>

The accompanying notes are an integral part of these statements.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

STATEMENTS OF ACTIVITIES

Years Ended June 30,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Revenue, support, gains, and losses:					
State aid	\$ 4,221,828	\$ 503,012	\$ 4,724,840	\$ 4,022,153	\$ 310,766	\$ 4,332,919
Grants	244,345		244,345	491,238		491,238
Contributions	304,573		304,573	313,182		313,182
Tax credit contributions		93,007	93,007		83,703	83,703
Co-curricular activities	182,808		182,808	133,241		133,241
Investment (loss) income	(93,459)		(93,459)	41,784		41,784
Other	324,334		324,334	126,573		126,573
Net assets released from restrictions:						
Satisfaction of donor requirements	<u>596,019</u>	<u>(596,019)</u>		<u>442,811</u>	<u>(442,811)</u>	
Total revenue, support, gains, and losses	<u>5,780,448</u>		<u>5,780,448</u>	<u>5,570,982</u>	<u>(48,342)</u>	<u>5,522,640</u>
Program expenses:						
Secondary education:						
Salaries	2,498,561		2,498,561	2,402,397		2,402,397
Payroll taxes and benefits	660,174		660,174	632,755		632,755
School site lease	614,044		614,044	558,613		558,613
Professional services	107,263		107,263	78,046		78,046
Supplies and instructional aids	145,992		145,992	188,755		188,755
Repairs and maintenance	149,366		149,366	130,183		130,183
Information technology	44,627		44,627	56,008		56,008
Postage and printing	12,351		12,351	9,779		9,779
Co-curricular activities	111,557		111,557	67,606		67,606
Depreciation	34,150		34,150	49,640		49,640
Other	<u>603,490</u>		<u>603,490</u>	<u>547,570</u>		<u>547,570</u>
Total program expenses	4,981,575		4,981,575	4,721,352		4,721,352
Management and general	691,447		691,447	621,114		621,114
Fundraising	<u>34,303</u>		<u>34,303</u>	<u>101,028</u>		<u>101,028</u>
Total expenses	<u>5,707,325</u>		<u>5,707,325</u>	<u>5,443,494</u>		<u>5,443,494</u>
Change in net assets	73,123		73,123	127,488	(48,342)	79,146
Net assets, beginning of the year	<u>1,387,832</u>		<u>1,387,832</u>	<u>1,260,344</u>	<u>48,342</u>	<u>1,308,686</u>
Net assets, end of the year	<u>\$ 1,460,955</u>	<u>\$</u>	<u>\$ 1,460,955</u>	<u>\$ 1,387,832</u>	<u>\$</u>	<u>\$ 1,387,832</u>

The accompanying notes are an integral part of these statements.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

STATEMENTS OF CASH FLOWS

Years Ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 73,123	\$ 79,146
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	39,375	57,755
Net loss (gain) on investments	93,459	(41,784)
Changes in:		
Due from government	1,846	31,343
Grants and other receivables	(107,595)	(181,807)
Due from related party		5,894
Prepaid expenses	(38,197)	5,477
Accounts payable	6,025	18,089
Accrued payroll and related	22,399	20,080
Deferred revenue	13,698	1,571
Due to related party	(206,039)	192,473
Deposits held for others	9,327	3,543
Net cash (used in) provided by operating activities	(92,579)	191,780
Cash flows from investing activities:		
Net (deposits to) withdrawals from investment accounts	(7,466)	1,951
Payments for property and equipment	(35,360)	
Net cash (used in) provided by investing activities	(42,826)	1,951
Net (decrease) increase in cash	(135,405)	193,731
Cash, beginning of the year	926,287	732,556
Cash, end of the year	\$ 790,882	\$ 926,287
<u>Supplemental disclosures</u>		
Cash paid during the year for interest	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ARA is a nonprofit 501(c)(3) corporation established in the State of Arizona. ARA is a subsidiary of GreatHearts, an Arizona nonprofit 501(c)(3) corporation. ARA provides educational services to students in sixth through twelfth grades in Gilbert, Arizona. ARA teaches students critical reasoning and communication skills which enables them to explore the cultural and scientific achievements that are at the heart of the liberal arts and sciences. ARA operates under a charter contract with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines.

The significant accounting policies of ARA 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*. ARA 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. ARA did not have any net assets with donor restrictions as of June 30, 2022 and 2021.

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.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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

Contributions: ARA follows 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. Donor-restricted conditional grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Donated Services: Donated services are recognized only if the services received either create or enhance assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of volunteers have made contributions of their time to ARA to help with programs, provide clerical support and general maintenance. Although appreciated, the value of the volunteers' contributed time is not reflected in the financial statements since it does not meet the recognition criteria.

Revenue Recognition: The majority of ARA'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 ARA to operate the charter school. ARA has never experienced any losses due to non-payment, expects none on the June 30, 2022 balances, and therefore has not established an allowance for uncollectibility.

Grants and Other Receivables: Grants and other receivables consist mainly of funds due from grant awards classified as conditional contributions. These grants are recorded as receivables when the related funds are expended and/or the services related to the awards are performed.

Deposits: Deposits consist of utility deposits related to the lease of the school sites.

Prepaid Expenses: Prepaid expenses consist mainly of prepaid rent related to the lease of the school site, and prepaid goods and services for use in the subsequent fiscal year.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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

Property and Equipment: Property and equipment with a cost of \$5,000 or more and an estimated useful life of one year or more are capitalized. Assets are stated at cost. Depreciation is provided on the straight-line basis over the following estimated useful lives of the respective assets:

Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease
Furniture, fixtures and equipment	3-20 years

Deferred Revenue: Deferred revenue represents amounts collected but not earned as of June 30, 2022 and 2021.

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 10. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

NOTE 2 - LIQUIDITY AND AVAILABILITY

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

	2022	2021
Financial assets included in current assets:		
Cash	\$ 790,882	\$ 926,287
Investments	416,902	502,895
Due from government	4,951	6,797
Grants and other receivables	313,231	205,636
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,525,966	\$ 1,641,615

Arete Preparatory Academy  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY - Continued

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

ARA maintains all of its cash with one financial institution which is insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC), or covered under Securities Investor Protection Corporation (SIPC). At times, such cash may be in excess of FDIC or SIPC insurance limits. ARA has not experienced any losses in such accounts and believes it is not exposed to any significant risks on cash.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs generally are available indirect information, such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. ARA did not have any financial instruments it values based on Level 2 inputs at June 30, 2022 and 2021.

Level 3 inputs are the most subjective, and are generally based on the entity's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. ARA did not have any financial instruments it values based on Level 3 inputs at June 30, 2022 and 2021.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT - Continued

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

*Equity and fixed income securities:* Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

ARA's Level 1 investments are stated at fair value and consisted of the following at June 30:

	2022	2021
Cash equivalents		\$ 80,864
Equity securities	\$ 326,677	100,829
Fixed income securities	90,225	321,202
Total investments	\$ 416,902	\$ 502,895

NOTE 5 - OPERATING LEASE

ARA maintains a lease for its school site with a related party, which expires June 30, 2045 (see Note 11), under the provisions of a long-term lease agreement classified as an operating lease. Rental expense under the lease was \$707,983 and \$649,938 for the years ended June 30, 2022 and 2021, respectively. The lease payment is the greater of 15% of the state payments received by ARA from the State of Arizona or ARA's proportionate share of the amount GreatHearts is obligated to pay to service its bond-financed mortgage debt related to the acquisition, construction, and equipping of the campus. Future minimum operating lease commitments, based on ARA's proportionate share of GreatHearts' bond-financed mortgage debt related to the campus, are as follows:

Year ending June 30,	
2023	\$ 536,469
2024	536,938
2025	537,125
2026	537,000
2027	536,375
Thereafter	9,131,375
	\$11,815,282

Arete Preparatory Academy  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Classroom Site Funds	\$ 481,568	\$ 335,393
Instructional Improvement Fund	21,444	23,715
Tax credit contributions restricted for extracurricular activities	<u>93,007</u>	<u>83,703</u>
	<u>\$ 596,019</u>	<u>\$ 442,811</u>

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: ARA's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and the Arizona Department of Education. While ARA believes it is in compliance with all laws and regulations, such reviews could result in adjustments or withholding of ARA's State Equalization.

Pledged Revenues: ARA has granted a security interest in its personal property and revenues, including revenues received from the State of Arizona under the ARA charter, to U.S. Bank National Association, as trustee for the Industrial Development Authority of the City of Phoenix, Arizona, in conjunction with the Education Facility Revenue Bonds (GreatHearts Arizona Project), Series 2014A, related to the Arete school site.

NOTE 8 - ECONOMIC DEPENDENCY

For the years ended June 30, 2022 and 2021, approximately 86% and 87%, respectively, of ARA's revenue was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), other State revenues, State of Arizona grants, and federal grants passed through the State of Arizona. Non-federal funds that are paid by 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 ARA's future revenues.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 9 - CONDITIONAL CONTRIBUTIONS

ARA 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 ARA in the subsequent years in order to earn and receive these amounts. As of June 30, 2022, amounts awarded but not yet earned totaled \$243,560. While management believes that ARA 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 10 - FUNCTIONAL EXPENSE ALLOCATION

The statement of activities reports certain categories of expenses that are attributable to program and supporting functions of the organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: salaries and payroll taxes and benefits which are allocated on the basis of estimates of time and effort, depreciation which is allocated on the basis of square footage, and school site lease, professional services, supplies instructional aids, repairs and maintenance, postage and printing, and other which are allocated on the basis of salaries.

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

	<u>Secondary Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 2,498,561	\$ 313,638	\$ 20,296	\$ 2,832,495
Payroll taxes and benefits	660,174	76,528	5,383	742,085
School site lease	614,044	93,939		707,983
Professional services	107,263	15,420		122,683
Supplies and instructional aids	145,992	31,187		177,179
Repairs and maintenance	149,366	22,562		171,928
Information technology	44,627			44,627
Postage and printing	12,351	4,117		16,468
Co-curricular activities	111,557			111,557
Depreciation	34,150	5,225		39,375
Fundraising			8,624	8,624
Other	<u>603,490</u>	<u>128,831</u>		<u>732,321</u>
Total	<u>\$ 4,981,575</u>	<u>\$ 691,447</u>	<u>\$ 34,303</u>	<u>\$ 5,707,325</u>

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 10 - FUNCTIONAL EXPENSE ALLOCATION - Continued

The following summarizes ARA's expenses by function for the year ended June 30, 2021:

	Secondary Education	Management and General	Fundraising	Total
Salaries	\$ 2,402,397	\$ 261,392	\$ 93,243	\$ 2,757,032
Payroll taxes and benefits	632,755	83,090	4,770	720,615
School site lease	558,613	91,325		649,938
Professional services	78,046	17,714		95,760
Supplies and instructional aids	188,755	19,113		207,868
Repairs and maintenance	130,183	21,283		151,466
Information technology	56,008			56,008
Postage and printing	9,779	3,267		13,046
Co-curricular activities	67,606			67,606
Depreciation	49,640	8,115		57,755
Fundraising			3,015	3,015
Other	547,570	115,815		663,385
Total	<u>\$ 4,721,352</u>	<u>\$ 621,114</u>	<u>\$ 101,028</u>	<u>\$ 5,443,494</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

ARA is related to GreatHearts, Archway Classical Academy Arete, Archway Classical Academy Chandler, Archway Classical Academy Cicero, Archway Classical Academy Glendale, Archway Classical Academy Lincoln, Archway Classical Academy North Phoenix, Archway Classical Academy Scottsdale, Archway Classical Academy Trivium East, Archway Classical Academy Trivium West, Archway Classical Academy Veritas, Anthem Preparatory Academy, Chandler Preparatory Academy, Cicero Preparatory Academy, Glendale Preparatory Academy, Lincoln Preparatory Academy, Maryvale Preparatory Academy, North Phoenix Preparatory Academy, Scottsdale Preparatory Academy, Trivium Preparatory Academy and Veritas Preparatory Academy through having a sole common member, GreatHearts. During the years ended June 30, 2022 and 2021, ARA had the following transactions with these related parties:

All personnel utilized by ARA are employees of GreatHearts. ARA reimburses GreatHearts for actual payroll costs and estimated benefits. For the years ended June 30, 2022 and 2021, payroll, taxes and benefits paid to GreatHearts totaled \$3,574,580 and \$3,477,647, respectively. Accrued payroll and related liabilities totaling \$108,500 and \$86,101 was due to GreatHearts at June 30, 2022 and 2021, respectively.

Arete Preparatory Academy  
(a subsidiary of GreatHearts Arizona)

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 11 - RELATED PARTY TRANSACTIONS - Continued

ARA receives best practices and governance oversight, curriculum development, special education expertise, business strategy, fundraising and marketing support, facility development, information technology, and various other administrative services from GreatHearts. For the year ended June 30, 2022 and 2021, fees were paid to GreatHearts based upon 10% of ARA's state revenues and totaled \$471,989 and \$433,292, respectively, and are included in other expenses on the statements of activities. At June 30, 2022 and 2021, ARA owed GreatHearts \$7,880 and \$213,919, respectively.

ARA has an operating lease agreement with GreatHearts for its school site (see Note 5).

NOTE 12 - SUBSEQUENT EVENTS

ARA has evaluated subsequent events through November 4, 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 an adjustment to or disclosure in 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  
Arete Preparatory Academy  
Gilbert, 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 Arete Preparatory Academy (ARA), a nonprofit organization and subsidiary of GreatHearts Arizona, 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 4, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ARA'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 ARA's internal control. Accordingly, we do not express an opinion on the effectiveness of ARA'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 ARA'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 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.

*Fester & Chapman, PLLC*

November 4, 2022

**Arete Preparatory Academy**  
**Legal Compliance Questionnaire**  
**Year Ended June 30, 2022**



**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors  
Arete Preparatory Academy  
Gilbert, Arizona

We have performed the procedures enumerated below on evaluating Arete Preparatory Academy's (ARP, a nonprofit organization and a subsidiary of GreatHearts Arizona) compliance with the 5/22 version of the Arizona State Board for Charter Schools Legal Compliance Questionnaire (LCQ) as of and for the year ended June 30, 2022. ARP's management is responsible for compliance.

ARP and the Arizona State Board for Charter Schools have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining ARP's compliance with the LCQ requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are included with the 5/22 version of the Arizona State Board for Charter Schools Legal Compliance Questionnaire following this report.

We were engaged by ARP to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively on ARP's compliance with the LCQ requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of ARP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Board of Directors and management of ARP and the Arizona State Board for Charter Schools, and is not intended to be and should not be used by anyone other than those specified parties.

*Fester & Chapman, PLLC*

November 4, 2022



Charter Holder Name: Arete Preparatory Academy  
Charter Holder CTDS: 078527000

Legal Compliance Questionnaire<sup>1</sup>

For Fiscal Year Ended June 30, 2022

**TABLE OF CONTENTS**

INSTRUCTIONS ..... 2  
PERSONNEL ..... 3  
REQUIRED FILINGS ..... 3  
SPECIAL EDUCATION ..... 5  
CLASSROOM SITE FUND ..... 5  
STUDENT ATTENDANCE REPORTING ..... 5  
OPEN MEETING LAW ..... 9  
INSURANCE REQUIREMENTS ..... 9  
TUITION ..... 9  
RECORDS MANAGEMENT ..... 9

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<sup>1</sup> This questionnaire should only be used for charters that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (charters that HAVE an exception). If a charter is subject to procurement requirements pursuant to A.R.S. §§ 15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines) which is available on the Arizona State Board for Charter Schools’ website <https://asbcs.az.gov>.

## INSTRUCTIONS<sup>2</sup>

In order to determine whether a charter that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the audit firm must complete the following Legal Compliance Questionnaire in accordance with both the agreed upon procedures (instructions contained herein) and the attestation standards established by the American Institute of Certified Public Accountants. (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools.)

The following prescribed minimum agreed upon procedures, as well as those identified throughout the questionnaire, must be used for completing the Legal Compliance Questionnaire in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The State Board for Charter Schools may reject questionnaires not meeting these standards.

- ◆ Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the charter complies with the legal requirements, and the evidence must be included in the documentation.
- ◆ Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support “Yes” answers to the questionnaire.
- ◆ Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.
- ◆ The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.
- ◆ The sample size should be expanded if the audit firm cannot clearly determine whether the charter complies with the legal requirements of the question.
- ◆ If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.
- ◆ All “No” and “N/A” answers must be adequately explained in the box below the question or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.
- ◆ A “Yes” answer indicates that the audit firm has determined that the charter complies with the legal requirements of the question and a “No” answer indicates the charter does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, resulting documentation, and any other sources.

The resulting documentation supporting the audit firm’s answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the documentation a copy of the questionnaire containing references to procedures performed for each question.

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<sup>2</sup> For the purposes of this questionnaire, please note that “Governing Body” means the group of persons required by A.R.S. § 15-183(E)(8) that is responsible for policy decisions of the charter school.

<b>PERSONNEL</b>	
<b>Prior to completing the fingerprinting questions below, please review guidance available on the <a href="#">Board's website</a>.</b>	
1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? <b>A.R.S. §§ 15-183(C)(5) and 15-512(H)</b>	YES
<b>Questions 2a through 2c only apply to new hires required pursuant to A.R.S. § 15-183(C)(5) to have valid FCCs and do not apply if an individual's FCC has expired.</b>	
2. For each individual referenced in question #1 that did not have a valid FCC, please provide the following information: <b>A.R.S. § 15-183(C)(5)</b>	
a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date?	N/A
All personnel had valid FCC's.	
b. Did DPS receive the application prior to the hire date?	N/A
All personnel had valid FCC's.	
c. Prior to placement, did the school do all of the following:	
i) Document the necessity for hiring/placing the individual prior to receiving a FCC?	N/A
All personnel had valid FCC's.	
ii) Obtain statewide criminal history information on the individual?	N/A
All personnel had valid FCC's.	
iii) Obtain references from the applicant's current and previous employers?	N/A
All personnel had valid FCC's.	
3. Did the charter school maintain up-to-date fingerprints of all Governing Body members as of the testing date? <b>Charter Contract</b> (Citations could not be provided as they vary.)	YES
4. Were all other personnel fingerprint checked as of the testing date? <b>A.R.S. §§ 15-183(C)(5) and 15-512</b>	
5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of information about the educational and teaching background and experience in a particular academic content subject area for all current employees who provide instruction to pupils? <b>A.R.S. § 15-183(F)</b>	
<b>REQUIRED FILINGS</b>	
1. Internal Revenue Service (IRS) <b>U.S.C. Title 26</b>	
a. Is the school in good standing with the IRS for payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	YES

b. The school did not have any payroll or income taxes payable to the IRS from a prior year(s) as of audited fiscal year end (June 30 <sup>th</sup> ) is a true statement.	YES
c. If the response to question 1.a, question 1.b, or both is “no”, does the school have a payment plan in place with the IRS?	N/A
The responses to question 1.a and 1.b were not “no”.	
d. If the answer to question 1.c is “yes”, has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 <sup>th</sup> )?	N/A
The response to question 1c. was not “yes”.	
<b>2. Arizona Department of Revenue (ADOR) A.R.S. §§ 43-401 and 43-1111</b>	
a. Is the school in good standing with the ADOR for payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year?	YES
b. The school did not have any payroll or income taxes payable to the ADOR from a prior year(s) as of audited fiscal year end (June 30 <sup>th</sup> ) is a true statement.	YES
c. If the response to question 2.a, question 2.b, or both is “no”, does the school have a payment plan in place with the ADOR?	N/A
The responses to question 1.a and 1.b were not “no”.	
d. If the answer to question 2.c is “yes”, has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 <sup>th</sup> )?	N/A
The response to question 1c. was not “yes”.	
<b>3. Arizona Department of Economic Security (ADES) A.R.S. §§ 23-701 through 23-757</b>	
a. Is the school in good standing with the ADES for state unemployment contribution requirements for the audited fiscal year?	YES
b. The school did not have any state unemployment contributions payable to the ADES from a prior year(s) as of audited fiscal year end (June 30 <sup>th</sup> ) is a true statement.	YES
c. If the response to question 3.a, question 3.b, or both is “no”, does the school have a payment plan in place with the ADES?	N/A
The responses to question 1.a and 1.b were not “no”.	
d. If the answer to question 3.c is “yes”, has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 <sup>th</sup> )?	N/A
The response to question 1c. was not “yes”.	

4. Is the school in good standing with the Arizona Corporation Commission (e.g., annual report)? <b>Charter Contract</b>	YES
5. Was a copy of the adopted budget submitted electronically to the Superintendent of Public Instruction no later than July 18 <sup>th</sup> ? <b>A.R.S. §§ 15-183(E)(6) and 15-905(E)</b>	YES
6. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15 <sup>th</sup> ? <b>A.R.S. §§ 15-183(E)(6) and 15-904(A)</b>	YES
<b>SPECIAL EDUCATION</b>	
1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education?	YES
2. Does the school conduct 45-day screenings on all new students? <b>A.A.C. R7-2-401</b>	YES
3. Are evaluations and IEPs on file for special education students? <b>34 CFR 300.341-350 and 300.531-536</b>	YES
<b>CLASSROOM SITE FUND – A.R.S. § 15-977 and <a href="#">Office of the Auditor General FAQ</a></b>	
1. For the Classroom Site Fund, were expenses only for allowable purposes listed in A.R.S. §15-977?	YES
2. Did the school use Classroom Site Fund monies to supplement, rather than supplant, existing funding from all other sources?	YES
3. Did the school have sufficient cash at year-end to cover the carryover monies, and what was the Classroom Site Fund <u>cash</u> carryover balance at year-end?	YES
The Classroom Site Fund cash carryover balance at year-end was \$0.	
<b>STUDENT ATTENDANCE REPORTING</b>	
<b>If test work performed in this section discloses a net overstatement or understatement of membership and/or absence days, based on A.R.S. and ADE’s school finance external guidelines, report the net overstatement or understatement in the box below each applicable question.</b>	
1. Did the school’s calendar ensure school was in session for the required days and students received the required instructional hours per grade level, including Arizona Online Instruction (AOI) programs as prescribed in A.R.S. §§ 15-808(J)(1), 15-901(A)(1), 15-901.07 and 15-901.08?	YES

**For Student Attendance Reporting questions, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. These samples should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested should be selected from the first 100 days of school. In the parentheses provided within the questions, write the actual number of transactions tested. If all transactions were tested, indicate such.**

<p><b>For question 2, select at least 3 student attendance records. (If a student in the sample was in a virtual day, ensure the student was counted based on the instructional time model (ITM).)</b></p> <p>2. If the school had an early (pre-) kindergarten program, based upon review of ( <u> 0 </u> ) early (pre-) kindergarten students' attendance records, did the school only calculate and submit membership information for this program for students with disabilities?  <b>A.R.S. § 15-901(A)(1)(a)(i) and USFRCS Memorandum No. 33</b></p>	<p>N/A</p>
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Program not offered by the School.

<p><b>For question 3, use the following sample sizes. (If a student in the sample was in a virtual day, ensure the student was counted based on the ITM.)</b></p>	
<p><b><u>SCHOOLWIDE ADM</u></b></p> <p>&lt;1,000  1,000-5,000  &gt;5,000</p>	<p><b><u>Student Attendance Records</u></b></p> <p>5  10  15</p>

<p>3. Based upon review of ( <u> 5 </u> ) students' attendance records, did the school appropriately track and report elementary, junior high, and high school students' membership and absences? <b>A.R.S. §§ 15-901(A)(1)(a)(i) and 15-901(A)(5)(a)(i), and USFRCS Memorandum No. 33</b></p>	<p>N/A</p>
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Program not offered by the School.

<p><b>For questions 4-7, use the following sample sizes. (If a student in the sample was in a virtual day, ensure the student was counted based on the ITM.)</b></p>	
<p><b><u>SCHOOLWIDE ADM</u></b></p> <p>&lt;1,000  1,000-5,000  &gt;5,000</p>	<p><b><u>Student Attendance Records</u></b></p> <p>3  5  7</p>

<p>4. Based upon review of ( <u> 0 </u> ) high school students' attendance records, did the school prorate the membership of the students enrolled in less than 4 subjects?</p>	<p>N/A</p>
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No students enrolled in less than 4 subjects.

<p>5. For schools-Based upon review of ( <u> 0 </u> ) students' (enrolled in a program provided by a CTED in a facility owned or operated by a school) attendance records, did the school report the actual enrollment for only the school classes the student was enrolled in at the school site (excluding CTED program classes) under the school's CTDS number?</p>	<p>N/A</p>
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Program not offered by the School.

<p>6. For schools offering an AOI program, based upon a review of ( <u> 0 </u> ) AOI students' attendance records for 4 weeks: (ADE's guideline <a href="#">SF-0003-AOI Participation</a>)</p>
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c. Did membership begin on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school? <b>ADE’s External Guideline GE-17</b>	YES
d. Did the school obtain and maintain verifiable documentation of Arizona residency upon enrollment? <b>A.R.S. § 15-802(B)(1)</b> and <a href="#">ADE’s Updated Residency Guidelines</a>	YES
11. Did the school exclude nonresident students from the school’s student count and state aid calculations and charge tuition, as applicable? <b>A.R.S. § 15-823(G) and (L)</b>	N/A
All students are Arizona residents.	
12. Based upon review of ( <u> 5 </u> ) withdrawals:	
a. Were the withdrawal dates entered into the school’s computerized attendance system within 5 working days after the actual day of withdrawal and was documentation maintained to support the date of data entry? ( <b>Note:</b> “Day of withdrawal” for determining timely data entry means: a. the later of the student’s withdrawal date or the day the school is notified the student will not be returning; or b. the 10 <sup>th</sup> day of unexcused absence for students withdrawn for having 10 consecutive unexcused absences.)	YES
b. Did the withdrawal date in the computerized attendance system agree to the withdrawal form? ( <b>Note:</b> If the computerized attendance system requires the school to input the day following the withdrawal date for a student to be counted in membership through the last day of actual attendance or excused absence, the withdrawal date on the system should be the school day following the withdrawal date on the form.)	YES
c. Did the school prepare and retain an <i>Official Notice of Pupil Withdrawal</i> form that a school administrator signed for each withdrawal? <b>A.R.S. § 15-827</b>	YES
13. Based upon review of the school’s student data uploaded to ADE (AzEDS ADM15 or ABSATT10 report, as applicable), did the membership and absences agree to the school’s computerized attendance system records for the first 100 days of school? ( <b>Note:</b> For an AOI Program, review year-end attendance information.) <b>A.R.S. §15-901</b>	YES
14. Did the school report students that completed all high school requirements with the applicable graduation code and use the appropriate year-end status code for other students?	YES

15. For students participating in distance learning, did the school follow attendance procedures defined in an adopted ITM?	N/A
Program not offered by the School.	
<b>OPEN MEETING LAW</b>	
<b>A.R.S. §§ 38-431.01 and 38-431.02 (See also Attorney General Opinion 100-009)</b>	
1. Did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations?	YES
2. Did the school post all public meeting notices on its website?	YES
3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting?	YES
4. Were notices and agenda of public meetings posted at least 24 hours before the meeting?	YES
5. Were written minutes prepared or a recording made of Governing Body meetings?	YES
<b>INSURANCE REQUIREMENTS – A.R.S. § 15-183(M)</b>	
Does the school have the required insurance for liability and property loss?	YES
<b>TUITION – A.R.S. § 15-185(B)(6) (See also Attorney General Opinion 198-007)</b>	
Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. § 15-185(B)(6) [nonresidents]?	YES
<b>RECORDS MANAGEMENT</b>	
1. Did the school retain records in accordance with the General Retention Schedules for Education – K-12 published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? ( <a href="http://www.azlibrary.gov/arm/retention-schedules">www.azlibrary.gov/arm/retention-schedules</a> )	YES
2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity – was adequate documentation retained to support revenue and expenses in the charter school)?	YES

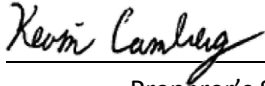
This Questionnaire was completed in accordance with the minimum standards as set forth in the instructions on page 2.

Fester & Chapman, PLLC

Audit Firm

November 4, 2022

Date



Preparer's Signature (Audit Firm Representative)

Partner

Title