Financial Reports

AMERICAN LEADERSHIP ACADEMY, INC.
Chandler, Arizona
FINANCIAL STATEMENTS

Year Ended June 30, 2019

Henry+Horne

AMERICAN LEADERSHIP ACADEMY, INC.
TABLE OF CONTENTS

Henry+Horne
Offering You More

INDEPENDENT AUDITORS' REPORT

Board of Directors
American Leadership Academy, Inc
Chandler, Arizona

Report on the Financial Statements

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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Leadership Academy, Inc as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note 13, a prior period adjustment has been recorded to the financial statements to correct the balance of net assets at the beginning of the year. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 September 26, 2019, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Leadership Academy, Inc's internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona
September 26, 2019

AMERICAN LEADERSHIP ACADEMY, INC
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 10,626,114
Restricted cash and cash equivalents	16,275,045
Accounts receivable	2,023,763
Grants receivable	945,333
Prepaid expenses and other assets	115,025
TOTAL CURRENT ASSETS	29,985,280
PROPERTY AND EQUIPMENT, NET	215,102,831
TOTAL ASSETS	$ 245,088,111
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 2,605,032
Accrued payroll and other expenses	3,263,322
Current portion of bonds and loans payable	7,547,472
Line of credit	2,500,000
Capital leases	198,654
TOTAL CURRENT LIABILITIES	16,114,480
LONG-TERM DEBT, net of current portion and debt issuance costs	226,610,863
TOTAL LIABILITIES	242,725,343
NET ASSETS	
Without donor restrictions	2,362,768
With donor restrictions	-
TOTAL NET ASSETS	2,362,768
TOTAL LIABILITIES AND NET ASSETS	$ 245,088,111

See accompanying notes.

AMERICAN LEADERSHIP ACADEMY, INC
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Equalization and state funding	$ 69,228,732	$ -	$ 69,228,732
Federal grants	2,844,574	-	2,844,574
Food service revenue	2,130,642	-	2,130,642
School activities revenue	831,151	-	831,151
School sales and events revenue	765,120	-	765,120
Contributions and grants	946,434	-	946,434
Preschool tuition and miscellaneous income	647,481	-	647,481
TOTAL SUPPORT AND REVENUE	77,394,134	-	77,394,134
EXPENSES			
Program expenses			
Instruction and operation	35,423,650	-	35,423,650
Interest expense	12,449,743	-	12,449,743
Other program related expenses	18,050,402	-	18,050,402
Professional fees	2,095,345	-	2,095,345
Supporting services			
Administrative operations	2,343,135	-	2,343,135
Office supplies and other	9,400,458	-	9,400,458
TOTAL EXPENSES	79,762,732	-	79,762,732
CHANGE IN NET ASSETS	(2,368,598)	-	(2,368,598)
NET ASSETS, BEGINNING OF YEAR	5,494,613	-	5,494,613
NET ASSETS, BEGINNING OF YEAR RESTATED	4,731,366	-	4,731,366
NET ASSETS, END OF YEAR	$ 2,362,768	$ -	$ 2,362,768

See accompanying notes.

AMERICAN LEADERSHIP ACADEMY, INC
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Expense	Management and General	Total
Personnel costs			
Salaries and wages	$ 31,557,892	$ 1,660,942	$ 33,218,834
Employee benefits and payroll taxes	3,865,758	682,193	4,547,950
Total personnel costs	35,423,650	2,343,135	37,766,784
Advertising	148,903	-	148,903
Depreciation	7,899,927	-	7,899,927
Facilities	3,087,565	162,503	3,250,068
Food service	2,223,765	-	2,223,765
Insurance	375,418	-	375,418
Interest	12,449,743	-	12,449,743
Loss on disposal of assets	1,024,063	-	1,024,063
Miscellaneous	569,653	189,884	759,537
Other expenses	97,819	10,869	108,688
Professional fees	2,095,345	8,381,380	10,476,725
Supplies and other expenses	2,623,289	655,822	3,279,111
Total functional expenses	$ 68,019,139	$ 11,743,593	$ 79,762,732

See accompanying notes.

AMERICAN LEADERSHIP ACADEMY, INC
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (2,368,598)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	7,899,927
Loss on sale of property	1,024,063
Decrease (increase) in:	
Accounts and grants receivable	(633,508)
Prepaid expenses and other assets	158,994
Increase (decrease) in:	
Accounts payable	(183,264)
Accrued payroll and other expenses	2,287,215
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	8,184,829
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(8,591,836)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(8,591,836)
CASH FLOWS FROM FINANCING ACTIVITIES	
Borrowings from line of credit	2,500,000
Payments on capital leases	(249,583)
Payments on bonds and notes payable	1,256,287
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	3,506,704
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,099,697
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,801,462 *
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 26,901,159

RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	$ 10,626,114
Restricted cash and cash equivalents	16,275,045
Total cash and cash equivalents	$ 26,901,159

SUPPLEMENTAL INFORMATION	
Cash paid for interest	$ 12,251,074
Interest on loan fees	198,669
Non-cash capital lease addition	596,891

* Restated

See accompanying notes.

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; and reverence for life cultivated through exposure to science, arts, service, and agriculture. 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, 2019, 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 Grants Receivable

Accounts receivable 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.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Grants receivable 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.

Unconditional promises to give are recognized in the period the promise is received and as assets, decreases in liabilities, or expenses, depending on the form of the benefits received.

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.

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 in interest expense. Debt issuance costs are presented net of accumulated amortization and are included with long-term debt on the statement of financial position.

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

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The School adopted the standard on July 1, 2018. The School has analyzed the provisions of the Financial Accounting Standards Board's ASC Topic 606, Revenue *from Contracts with Customers*, and has concluded that no changes are necessary to conform with the new standard. State equalization funds, federal grants (including federal food service revenue), and state grants are determined to be contributions in accordance with Accounting Standards Update 2018-08, 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.

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.

Donated Services and Materials

Donated materials are recorded at their estimated fair value in the period received. Donated services are recorded at fair value if they create or enhance the School's nonfinancial assets or require specialized skills that the School would normally purchase if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines; however, a substantial number of volunteers (primarily parents of attending students) have donated significant amounts of their time to the School's program services.

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

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.

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, 2019, 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, 2019, the School did not have any income tax related interest and penalty expense.

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

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 September 26, 2019, the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU resulted in unrestricted net assets being renamed as net assets without donor restrictions. Also, a new disclosure about liquidity and availability has been added.

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 6 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.

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

As of June 30, 2019, the following table shows the total financial assets held by the School and the amounts of those financial assets that could be readily available within one year of the statement of financial position date to meet general expenditures.

Cash and cash equivalents	$ 26,901,159
Accounts and grants receivable	2,969,096
Prepaid expenses	115,025
Total financial assets	29,985,280
Restricted cash	(16,275,045)
Financial assets available to meet cash needs for general expenditures within one year	$ 13,710,235

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, accounts receivable, and grants receivable. 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 32% of the total receivables.

Of the School's revenue for the year ended June 30, 2019, approximately 93% 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.

NOTE 4 BOND RESERVES

On December 1, 2015 and December 1, 2017, the School entered into loan and note agreements under which the issuer of the loan agreements sold registered bonds to investors. Certain proceeds of funds issued to the School in conjunction with the loan 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, CoBiz Bank, UMB Bank, and National Association, are reported as restricted cash, and consist of the following accounts:

NOTE 4 BOND RESERVES (Continued)

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 2036, September 2040, and July 1, 2048.

Operating Reserve Funds

The operating reserve funds are funded to pay operating expenses at the request of the School when state payments are unavailable or when expenses exceed budgeted expenses. The required balance for the Operating Reserve Fund is $752,949 which when drawn down is to be replenished within 12 months. The balance of the operating reserve fund as of June 30, 2019 was $1,183,852. 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. All amounts drawn from the operating reserve funds are segregated from monthly state payments by the trustee and returned to the funds ratably over a twelve-month period.

Repair and Replacement fund

Commencing with the July 2016 scheduled monthly payment date, 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. Moneys 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 and 2017 Bonds in the event moneys in the Bond Fund and the subaccount of the Debt Service Reserve Fund related to the Series 2015 and 2017 Bonds are insufficient.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 consist of:

Land	$ 43,974,985
Curriculum	4,122,803
Leasehold improvements	1,519,769
Buildings and improvements	167,748,962
Furniture and equipment	12,777,627
	230,144,146
Accumulated depreciation	(15,041,315)
Net property and equipment	$ 215,102,831

Depreciation expense was $7,899,927 for the year ended June 30, 2019.

NOTE 6 LINE OF CREDIT

The School maintains a $2,500,000 bank line of credit dated September 12, 2017. The line has a two-year term which matures annually on September 30th. The line of credit was renewed on August 8, 2019. Interest is calculated at a rate of 0.5 percentage points over the National Prime Rate with a floor of 4.75% (6.0% at June 30, 2019), and is payable monthly. At June 30, 2019, the full $2,500,000 was outstanding on this line. The line of credit is secured by all assets of the School.

NOTE 7 LONG-TERM DEBT

Long-term debt at June 30, 2019 consists of the following:

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2019
Series 2015 Bonds Payable	4.600 - 5.625%	6/15/2045	$ 23,645,000
Series 2017 Bonds Payable	4.00 - 5.00%	6/15/2052	191,220,000
First International Loan	5.25%	4/25/25	242,882
GM Financial Auto Loan	7.95%	7/31/23	27,663
GM Financial Auto Loan	7.95%	7/31/23	26,779
GM Financial Auto Loan	7.95%	7/31/23	25,924
GM Financial Auto Loan	7.95%	7/31/23	26,779
GM Financial Auto Loan	6.84%	11/30/23	20,591
Wells Fargo Auto Loan	6.79%	4/30/23	16,098
Wells Fargo Auto Loan	6.79%	4/30/23	16,098
BBVA Compass Loan	4.16%	7/30/23	1,484,848
First International Loan	5.25%	9/23/24	2,656,863
Anthem EB5 Loan	7.34%	n/a	3,500,000
Anthem Loan	5.50%	9/13/19	4,780,000
2017 Signal Butte B	4.15%	6/15/24	3,650,000
2017 Signal Butte A	10.00%	6/15/24	8,595,000
Ally Auto Loan	7.99%	8/31/25	28,219
Ally Auto Loan	7.99%	8/31/25	25,660
Ally Auto Loan	7.99%	8/31/25	24,531
Ally Auto Loan	7.99%	11/15/25	24,966
Ally Auto Loan	7.99%	11/15/25	25,320
Wells Fargo Auto Loan	7.99%	9/30/24	26,183
GM Financial Auto Loan	7.40%	9/30/24	45,059
GM Financial Auto Loan	7.29%	12/28/24	47,739
Total long-term debt			240,182,202
Net debt issuance costs			(6,222,521)
Long-term debt, net of debt issuance costs			233,959,681
Current maturities			(7,547,472)
Long-term debt, net of current portion and debt issuance costs			$ 226,412,209

NOTE 7 LONG-TERM DEBT (Continued)

Annual maturities of long-term debt outstanding after June 30, 2019, are as follows:

Years Ending June 30,	
2020	$ 7,547,472
2021	2,895,142
2022	3,025,029
2023	3,750,976
2024	15,205,515
Thereafter	207,758,068
Total annual maturities	$ 240,182,202

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

Series 2015 and 2017

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 are between 4.600% and 5.625%. The bonds were issued to refund the Series 2012 bonds as well as fund multiple capital projects.

On December 14, 2017, the School finalized a loan agreement, dated December 1, 2017, with Pima IDA. Concurrent with the loan agreement, Pima IDA issued "Series 2017" Educational Facility Revenue bonds. The bonds have an original principal amount of $192,290,000 and mature June 15, 2052. The interest on the bonds are between 4.000% and 5.000%. The bonds were issued to fund multiple capital projects.

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.

NOTE 7 LONG-TERM DEBT (Continued)

Series 2015 and 2017 (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 1.15 with respect to its Series 2015 and 2017 bond obligations. If the debt service coverage ratio is less than 1.15, 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 1.15. 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 years ended June 30, 2019 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.

NOTE 7 LONG-TERM DEBT (Continued)

Series 2015 and 2017 (Continued)

The School has calculated a debt service coverage ratio for all School debt and operations. The ratio is calculated as follows for the year ended June 30, 2019:

Debt Service Coverage Ratio	
Total pledged revenues	$ 77,394,134
Operating Expenses:	
Expenses, all school operations	$ 79,762,732
Less depreciation and amortization	(8,098,596)
Less interest - bond debt & other	(12,251,074)
Less expense - loss on disposal	(1,024,063)
Total operating expenses	$ 58,388,999
Income available for debt service	
Total pledged revenues	$ 77,394,134
Less operating expenses	(58,388,999)
Net income available for debt service	19,005,135
Divided by: debt service	14,750,320
Debt service coverage ratio	1.29
Days Cash on Hand Cash	
Cash - unrestricted	10,626,114
Cash - restricted	16,275,045
Total cash on hand	$ 26,901,159
Operating expense	$ 58,388,999
Average Daily expense	159,970
Days Cash on hand	66

NOTE 7 LONG-TERM DEBT (Continued)

Loans and Notes Payable (Continued)

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. The loans are collateralized with the vehicles purchased with proceeds from the loan.

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.

On June 1, 2017, the School finalized a loan agreement, with Pima IDA. Concurrent with the loan agreement, Pima IDA issued "Signal Butte Series 2017A" Senior Education Facility Revenue Loan Obligations finance through BOK Financial in the amount of $9,130,000. The proceeds were used to fund the construction of a school campus. The loan is payable semi-annually, including interest of 4.150%, maturing June 15, 2024. The loan is collateralized by the Signal Butte buildings.

On June 1, 2017, the School finalized a loan agreement, with Pima IDA. Concurrent with the loan agreement, Pima IDA issued "Signal Butte Series 2017B" Subordinate Education Facility Revenue Loan Obligations financed through BOK Financial in the amount of $3,650,000. The proceeds were used to fund the construction of a school campus. The loan is payable semi-annually, including interest of 10.000%, maturing June 15, 2024. The loan is collateralized by the Signal Butte buildings.

Commencing on June 2, 2017, the School issued a promissory note with BOK Financial in the amount of $4,780,000 identified by the School as Anthem A Loan. The loan was payable semi-annually, including interest of 5.500%, maturing June 15, 2019. The School received a loan modification dated June 15, 2019, providing an extension of 90 days for final maturity of the loan to September 13, 2019. The School did not have sufficient cash flow to pay this balloon payment and has issued a short-term bridge loan in the amount of $4,809,000 at an interest rate of 6.75% on September 13, 2019 to repay the original loan. All of the real property located in Florence, Arizona is collateral for this loan. It is management's plan to issue bonds before the bridge loan matures February 1, 2020. While the loan is significant to the School's operations, management has a history of successfully issuing refunding bonds and believes the issuance of such bonds are probable. In addition, in September 2019 the School received a preliminary limited offering memorandum for the bonds from Pima IDA.

Commencing on June 2, 2017, the School issued a loan agreement with Vertex I, LLC in the amount of $3,500,000 identified by the School as Anthem EB5 Loan. The loan is payable monthly interest only in the amount of $21,408. This loan is unsecured with no maturity date.

NOTE 7 LONG-TERM DEBT (Continued)

Loans and Notes Payable (Continued)

Commencing January 19, 2018, the School issued a promissory note with BBVA Compass Bank in the amount of $2,000,000 for operations. The loan is payable in equal monthly payments of $33,952 including interest of 4.160%. The loan is collateralized by all inventory and equipment.

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 April 28, 2024. The note is collateralized by the buses and curriculum owned by the School.

NOTE 8 RETIREMENT PLAN

Plan Description and Funding Policy - ASRS

The School has chosen to participate in the Arizona State Retirement System. The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefits pension plan that covers general employees of the School. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. There was a total of four employees throughout the year that were a part of ASRS. As of June 30, 2019, there was only one active employee.

The Arizona State Legislature establishes and may amend active plan members' and the School's contribution rates. For the year ended June 30, 2019, there was one active ASRS member required by statute to contribute at the actuarially determined rate of 11.80% (11.64% for retirement and 0.16% for long-term disability) of the member's annual covered payroll and the School was required by statute to contribute at the actuarially determined rate of 11.80% (11.18% for retirement, 0.46 percent for health insurance premium, and 0.16% long-term disability) of the members' annual covered payroll. The School's contributions to ASRS for the year ended June 30, 2019, were $19,196.

Plan Description and Funding Policy - 401K Plan

The School established a 401(k) plan that covers all employees. Employees may contribute up to 100% of compensation not to exceed $18,500. The Organization 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 years ended June 30, 2019, the School made matching contributions of $335,091.

NOTE 9 OPERATING LEASES

The School conducts its schooling operations from campus facilities, some of which are leased under operating lease agreements which expire on various dates through April 2039. In addition, the School is leasing equipment under three to five-year noncancelable leases, which expire on various dates through August 2024. During the year ended June 30, 2019, the School paid lease expenses of $1,608,236 on these facilities and equipment. The following is a schedule of future minimum lease payments required under both the above noncancelable operating leases as of June 30, 2019:

Year Ending June 30,	Amount
2020	$ 1,194,146
2021	1,201,907
2022	1,132,078
2023	943,038
2024	964,075
2025-2029	5,192,634
2030-2034	5,874,985
2035-2039	6,095,117
	$ 22,597,980

NOTE 10 CAPITAL LEASES

Beginning September 1, 2018, the School entered into a noncancelable agreement to acquire assets in a capital lease transaction. The term of the lease is for a period of 36 months. Lease payments are due annually in the amount of $219,583. The School capitalized the cost of the assets and are being depreciated over five years. As of June 30, 2019, the asset value is as follows:

Equipment	$ 618,325
Accumulated depreciation	(123,665)
Net book value of the assets	$ 494,660

NOTE 10 CAPITAL LEASES (Continued)

The following is the schedule of future minimum lease payments.

Year Ending June 30,	Amount
2020	$ 219,583
2021	219,583
Total minimum lease payments	439,166
Less amount representing interest	41,858
Present value of minimum lease payment	$ 397,308

NOTE 11 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.

NOTE 12 RELATED PARTY TRANSACTIONS

ALA Management Services, Inc. is a non-profit corporation that provides leased employees to charter schools. On August 1, 2011, the School entered into an agreement to provide leased employees from ALA Management Services, Inc. A former board member of American Leadership Academy, Inc. (through June 2017) 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, 2019, including taxes and benefits, was $37,766,784.

The School contracts with Charter One, LLC ("Charter One") for administrative support and other services pursuant to an Administrative Services Agreement entered into in December 2017. The contract is effective for two years after its date and is subject to renewal for additional two-year terms upon mutual agreement. Charter One is an Arizona limited liability company and its members include the former board member of the School noted above, as well as the former Chief Marketing Officer (CMO) of the School, and the former Chief Executive Officer (CEO) of the School. Throughout the year, a Charter One partner, who is the sole member of Holmes Law PLC, had provided legal services to the School. However, by year end June 30, 2019, that member no longer held any ownership in Charter One. Under the agreement, Charter One provides services to the School including development services, operational services, academic services, financial services, and human resource services.

Pursuant to the agreement the School pays a per student fee and a performance bonus for each student who achieves a rating of "proficient" or "highly proficient" on both the English language arts and mathematics portions of the Arizona Statewide Achievement Assessment for English language arts and mathematics ("AZMerit"). Under the terms of the agreement, the School incurred a total fee of $8,370,195 as of June 30, 2019.

Western States, LLC provided the School with air conditioning system maintenance and repair services in the amount of $293,688 during the year ended June 30, 2019. A former board member of the School (through June 2017) 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 of the School. The School paid a total of $269,951 to Way Construction Development, LLC during the year ended June 30, 2019. In addition to the services provided, Way Construction reduced contractor fees in the amount of $489,947 which was recognized as in-kind services by ALA. 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, 2019, the School paid $414,199 to C1 Apparel LLC for apparel merchandise and services.

NOTE 13 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2019 it was discovered that beginning balances related to accounts receivable, prepaid expenses, property and equipment, accounts payable, and long-term debt were misstated. Account balances were not being properly reconciled in a timely manner resulting in differences from the general ledger to the aging reports. A prior period adjustment was recorded to properly state net assets at the beginning of the year as follows:

	Total
Previously state net assets, end of year	$ 5,494,612
Revenue:	
Local revenue adjustments	77,000
Expense:	
Depreciation expense	(243,764)
Dues and fees	(3,716)
General supplies	(125,825)
Interest	(66,601)
Insurance	(44,352)
Miscellaneous expense	(216,461)
Repairs and maintenance	89,462
Professional and technical fees	(228,989)
Net assets beginning of the year, adjusted	$ 4,731,366

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2020. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS (Continued)

The Financial Accounting Standards Board has issued Accounting Standards Update ("ASU") No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

COMPLIANCE SECTION

Henry+Horne
Offering You More

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
Chandler, 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 American Leadership Academy, Inc (a nonprofit corporation)(the School), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003 to be significant deficiencies.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

American Leadership Academy, Inc's responses to the findings identified in our audit are described in the accompanying corrective action plan. American Leadership Academy, Inc's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
September 26, 2019

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
Chandler, Arizona

Report on Compliance for 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, 2019. 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.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the School 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, 2019.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-004. Our opinion on each major federal program is not modified with respect to this matter.

American Leadership Academy, Inc's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. American Leadership Academy, Inc's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying corrective action plan as item 2019-004, that we consider to be a significant deficiency.

American Leadership Academy, Inc's response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. American Leadership Academy, Inc's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
September 26, 2019

AMERICAN LEADERSHIP ACADEMY, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Arizona Department of Education:			
Nutrition Cluster:			
National School Lunch Program - Reimbursement	10.555	n/a	$ 559,632
Total Child Nutrition Cluster:			559,632
Total U.S. Department of Agriculture			559,632
U.S. DEPARTMENT OF EDUCATION			
Passed through Arizona Department of Education:			
Title I, Part A - Grants to Local Education Agencies	84.010	19FT1TTI-910319-01A	900,765 *
Title II-A Supporting Effective Instruction State Grants	84.367	19FT1TTII-910319-03A	201,559
Title III - English Language Acquisition State Grants	84.365	19FELLEP-910319-10A	12,191
Title IV - Student Support & Academic Enrichment	84.424	19FT4TIV-910319-01A	61,047
Special Education Cluster			
Special Education - Grants to States - IDEA - Part B	84.027	19FESCBG-910319-09A	942,250
Special Education - Preschool Grants IDEA	84.173	19FECCBP-910319-37A	6,878
Total Special Education Cluster			949,128 *
Total U.S. Department of Education			2,124,690
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Public Consulting Group, Inc.			
Medical Assistance Program	93.778	n/a	6,748
Total U.S. Department of Health and Human Services			6,748
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,691,070

* Denotes major program

See accompanying notes to the schedule of expenditures of federal awards.

AMERICAN LEADERSHIP ACADEMY, INC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019

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, 2019. 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 elected to use the 12 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

AMERICAN LEADERSHIP ACADEMY, INC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? __X__ yes ___ no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? reported __X__ yes _____none

Noncompliance material to 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__yes ___ 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:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I
84.027 and 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? _____ yes __X__ no

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

Finding number: 2019-001 FINANCIAL STATEMENT CLOSING PROCESS

CRITERIA

The Organization must perform and review all year-end closing entries to ensure the amounts included in the financial statements are presented in accordance with generally accepted accounting principles (GAAP).

CONDITION/CONTEXT

Beginning balance accounts for accounts receivable, prepaid, capital assets, long-term debt and net assets were not properly reconciled and closed to reflect accurate balances.

CAUSE

The Organization did not have adequate review of year-end reconciliations and oversight over the year-end closing process.

EFFECT

Beginning balance journal entries were required to accurately report net assets at the beginning of the year.

RECOMMENDATION

We recommend that the Organization develop a year-end checklist of all the adjustments required and that management review and reconcile the general ledger for all account balances to ensure they are properly stated as of the fiscal year-end.

VIEWS OF RESPONSIBLE OFFICIALS

The Organization concurs with the finding. See the Corrective Action Plan.

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

Finding number 2019-002 INTERNAL CONTROL DEFICIENCY

CRITERIA

Management is responsible for establishing and maintaining effective internal controls and designating individuals who possess suitable skill, knowledge, and experience to execute these controls and carry out their duties to ensure that all transactions and account balances are properly recorded in the financial statements in accordance with generally accepted accounting principles.

CONDITION/CONTEXT

For 3 out of 40 invoices tested, no review or approval by the Finance Department, or other appropriate personnel, was performed prior to payment. For 2 out of 40 employment contracts tested, no Site Director (Principal) signature was documented approving the contract or pay.

CAUSE

The Organization did not have adequate management oversight over processing of invoices and approval of employee contracts.

EFFECT

In the absence of effective internal controls, and the approval of obligations by the Organization management, there is a risk of misstating financial statement balances.

RECOMMENDATION

A formal review and approval process over all major financial statement cycles should be implemented and documented.

VIEWS OF RESPONSIBLE OFFICIALS

The Organization concurs with the finding. See Corrective Action Plan.

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

Finding number: 2019-003 CAPITAL ASSET RECONCILIATION

CRITERIA

A listing of all capital assets, and their calculated depreciation expense should be maintained and reconciled regularly to the general ledger. Any new assets, disposals or depreciation should be monitored and reviewed to ensure the value is accurate and the listing is complete.

CONDITION/CONTEXT

Depreciation expense, accumulated depreciation and asset values, listed on the capital asset schedule, were not accurately reported as of fiscal year end. Original asset values reported did not agree to supporting documentation. Depreciation was recorded on construction in progress assets not fully placed into service by year-end. Depreciation expense was incorrectly calculated.

CAUSE

The Organization did not have adequate management oversight over the capital asset process, recording of new assets and depreciation expense calculations.

EFFECT

The material adjustments to depreciation expense, accumulated depreciation and asset values were required to properly state capital assets at year-end.

RECOMMENDATION

We recommend management implement a formal process to review and approve additions and deletions for all capital assets. Additionally, we recommend management develop a formal process for reviewing the accuracy and completeness of the capital asset listing and depreciation expense calculations.

VIEWS OF RESPONSIBLE OFFICIALS

The Organization concurs with the finding. See Corrective Action Plan.

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

U.S. DEPARTMENT OF EDUCATION Finding Number: 2019-004
CFDA Number: 84.010
CFDA Title: Title I
Pass-Through Agency: Arizona Department of Education
Questioned Costs: N/A

CRITERIA

The compliance supplement requires the Organization to implement effective internal controls to ensure all employees charged to the grant are approved by an individual with appropriate skills, knowledge and experience related to the federal program.

CONDITION/CONTEXT

For one of ten employees tested did not have the employment agreement with job title and coding approved by authorized individual.

CAUSE

The Organization did not have adequate management oversight over the review and approval of employment agreements paid with the use of federal funds.

EFFECT

The employee may not have been approved to work under the federal program with the approved rate.

RECOMMENDATION

We recommend management review and approval all employment agreements to ensure proper coding to federal programs.

VIEWS OF RESPONSIBLE OFFICIALS

The Organization concurs with the finding. See Corrective Action Plan.

CORRECTIVE ACTION PLAN

American Leadership Academy, Inc. respectfully submits the following corrective action plan for the year ending June 30, 2019.

Henry & Horne LLP
2055 E. Warner Rd, Suite 101
Tempe, AZ 85284

The findings from the June 30, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDING 2019-001

MATERIAL WEAKNESS: Financial Statement Closing Process

CONDITION

Beginning balance accounts for accounts receivable, prepaid, capital assets, long-term debt and net assets were not properly reconciled and closed to reflect accurate balances.

CORRECTIVE ACTION PLAN

As the management and Controller, we will make all efforts to develop a year-end checklist of all the adjustments required and that management review and reconcile the general ledger for all account balances to ensure they are properly stated as of the fiscal year-end.

FINDING 2019-002

SIGNIFICANT DEFICIENCY: Internal Control Deficiency

CONDITION

For 3 out of 40 invoices tested, no review or approval by the Finance Department, or other appropriate personnel, was performed prior to payment. For 2 out of 40 employment contracts tested, no Site Director (Principal) signature was documented approving the contract or pay.

CORRECTIVE ACTION PLAN

As the management and Controller, we will implement a formal review and approval process over all major financial statement cycles should be implemented and documented.

Finding 2019-003

SIGNIFICANT DEFICIENCY: Capital Asset Reconciliation

CONDITION

Depreciation expense, accumulated depreciation and asset values, listed on the capital asset schedule, were not accurately reported as of fiscal year end. Original asset values reported did not agree to supporting documentation. Depreciation was recorded on construction in progress assets not fully placed into service by year-end. Depreciation expense was incorrectly calculated.

CORRECTIVE ACTION PLAN

As the management and Controller, we will implement a formal process to review and approve additions and deletions for all capital assets. Additionally, management will develop a formal process for reviewing the accuracy and completeness of the capital asset listing and depreciation expense calculations.

Finding 2019-004

FEDERAL AWARDS: Department of Education: Title I – control deficiency

CONDITION

For one of ten employees tested did not have the employment agreement with job title and coding approved by authorized individual.

CORRECTIVE ACTION PLAN

As the management and Controller, we will review and approve all employment agreements to ensure proper coding to federal programs.

Management agrees that the findings listed above should be corrected immediately, management is confident that we will correct this issue in an appropriate and timely manner.

If there are questions regarding this plan, please call Jeff Patterson, Controller, at 480-420-2101.

Jeff Patterson, Controller
American Leadership Academy, Inc