

ASU Preparatory Academy

**Financial Statements,
Supplementary Information
and
Single Audit Reports**

Year Ended June 30, 2018

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ASU Preparatory Academy (ASU Prep, a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ASU Prep as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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*, and the consolidating statements of financial position and activities are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 7, 2018 on our consideration of ASU Prep'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 ASU Prep's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

September 7, 2018

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

Current assets:	
Cash	\$ 1,851,481
Due from government	694,791
Pledges receivable	1,200,000
Other receivables	81,177
Prepaid expenses	<u>311,845</u>
Total current assets	4,139,294
Property and equipment:	
Furniture, fixtures and equipment	3,455,031
Leasehold improvements	767,360
Construction in progress	4,146,747
Less accumulated depreciation	<u>(2,082,966)</u>
	6,286,172
Pledges receivable, noncurrent, net	3,511,840
Other assets	<u>17,014</u>
Total assets	<u><u>\$13,954,320</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 3,147,358
Accrued payroll and related	725,303
Line of credit payable	700,000
Deferred revenue	<u>71,080</u>
Total current liabilities	4,643,741
Net assets:	
Unrestricted	2,517,497
Temporarily restricted	<u>6,793,082</u>
Total net assets	<u>9,310,579</u>
Total liabilities and net assets	<u><u>\$13,954,320</u></u>

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
State aid	\$ 17,663,847		\$ 17,663,847
Grants	1,801,603		1,801,603
Charges for services	1,258,546		1,258,546
Contributions	8,584,513		8,584,513
Tax credit contributions		\$ 103,170	103,170
Student activities	296,729		296,729
In-kind services	2,960,911		2,960,911
Miscellaneous	404,544		404,544
Net assets released from restrictions:			
Satisfaction of donor requirements	<u>1,498,056</u>	<u>(1,498,056)</u>	
Total revenue and support	34,468,749	(1,394,886)	33,073,863
Expenses:			
Program services:			
Instruction	14,869,145		14,869,145
Instructional support	3,995,075		3,995,075
Supporting services:			
Management and general	10,445,056		10,445,056
Operation and maintenance	3,303,455		3,303,455
Transportation	333,356		333,356
Operation of noninstructional services	1,039,245		1,039,245
Depreciation	<u>667,782</u>		<u>667,782</u>
Total expenses	<u>34,653,114</u>		<u>34,653,114</u>
Change in net assets	(184,365)	(1,394,886)	(1,579,251)
Net assets, beginning of year	<u>2,701,862</u>	<u>8,187,968</u>	<u>10,889,830</u>
Net assets, end of year	<u>\$ 2,517,497</u>	<u>\$ 6,793,082</u>	<u>\$ 9,310,579</u>

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from services, grants, and contributions	\$ 31,106,236
Cash received from interest	352
Cash payments to employees for services	(18,889,807)
Cash payments to suppliers for goods and services	(10,054,081)
Cash payments for interest	<u>(3,942)</u>
Net cash provided by operating activities	2,158,758
Cash flows from investing activities:	
Payments for purchases of property and equipment	<u>(5,531,253)</u>
Net cash used by investing activities	(5,531,253)
Cash flows from financing activities:	
Proceeds from line-of-credit	<u>700,000</u>
Net cash provided by financing activities	<u>700,000</u>
Net decrease in cash	(2,672,495)
Cash, beginning of year	<u>4,523,976</u>
Cash, end of year	<u><u>\$ 1,851,481</u></u>
Cash flows from operating activities:	
Change in net assets	\$ (1,579,251)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	667,782
Changes in:	
Due from government	(202,053)
Pledges receivable	1,214,996
Other receivables	(24,129)
Prepaid expenses	(257,346)
Accounts payable	2,048,349
Accrued payroll and related	285,588
Deferred revenue	<u>4,822</u>
Net cash provided by operating activities	<u><u>\$ 2,158,758</u></u>

The accompanying notes are an integral part of these statements.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

University Public Schools, Inc. (UPSI) was formed in July 2007 to operate a public school under the laws of the State of Arizona applicable to charter schools. In July 2013, UPSI changed its name from University Public Schools, Inc. to ASU Preparatory Academy (ASU Prep). ASU Prep derives program funding primarily from state educational aid, government grants and contributions.

ASU Prep has an affiliation agreement with Arizona State University (ASU) where the agreement provides ASU with opportunities to promote innovative teaching methods, teacher training methods, curriculum, school administration, professional development and educational research. ASU Prep, through the affiliation may obtain certain services from ASU, including the participation of ASU faculty and staff and may use ASU's trademark in the conduct of school activities. ASU may from time-to-time provide an affiliation payment for consideration of the services provided by ASU Prep. In addition, ASU Prep's by-laws require that two members of the Board of Directors be appointed by the President of ASU and be either employed by or an independent contractor engaged by ASU.

The Gary K. Herberger Young Scholars Academy, LLC is a private school wholly owned by ASU Prep. The Gary K. Herberger Young Scholars Academy, LLC offers a learning environment designed for highly gifted middle school students. The Academy began offering classes in August 2011.

ASU Prep Global Academy is a not-for-profit 501(c)(3) organization incorporated in the State of Arizona. ASU Prep Global Academy offers online high school and college prep curriculum to students around the world. ASU Prep is the sole member of ASU Prep Global Academy.

The significant accounting policies of ASU Prep follow:

Principles of Consolidation: The consolidated financial statements represent the accounts of ASU Preparatory Academy, The Gary K. Herberger Young Scholars Academy, LLC, and ASU Prep Global Academy. All significant intercompany transactions and accounts have been eliminated. The consolidated financial statements are not those of a separate legal entity.

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*. ASU Prep is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2018, ASU Prep had no permanently restricted net assets.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

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

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions: ASU Prep follows the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support based on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily restricted or permanently restricted net assets 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Due from Government: Due from government consists mainly of state approved payments to ASU Prep to operate the charter school. ASU Prep has never experienced any losses due to non-payment, and expects none from the June 30, 2018 balances, and therefore has not established an allowance for uncollectibility.

Pledges and Other Receivables: Pledges receivable are recognized as revenue when an unconditional promise to give is received, and are stated at the net present value of expected cash flows, less an estimated allowance for doubtful accounts. ASU Prep has never experienced any losses due to non-payment, and expects none from the June 30, 2018 balances, and therefore has not established an allowance for uncollectibility. See Note 3 for details regarding pledges receivable.

Property and Equipment: All acquisitions of property and equipment with an initial cost of \$5,000 or more and an estimated life of one year or more are capitalized. Assets are stated at cost. Donations of property and equipment are recorded at estimated fair value as of the date of donation. Depreciation is provided on the straight-line basis over the following estimated useful lives of the respective assets:

Furniture, fixtures and equipment	3-10 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease
Software	2-5 years

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

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

Deferred Revenue: Deferred revenue consists mainly of tuition fees for pre-kindergarten and kindergarten collected in advance for the next school year.

Advertising: Advertising costs are expensed as incurred. During the year ended June 30, 2018, ASU Prep had \$203,521 in advertising costs.

In-Kind Services: ASU Prep records revenue and a corresponding expense for in-kind services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided. The value of in-kind services is determined based on the estimated fair value of the services received or the increase in the fair value of the assets that are attributable to the in-kind services.

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

Income Taxes: ASU Prep and ASU Prep Global Academy are 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.

Gary K. Herberger Young Scholars Academy, LLC is single member LLC owned by ASU Prep, and therefore is considered a disregarded entity for income tax purposes. Accordingly, no provision for income taxes has been made.

NOTE 2 - CONCENTRATION OF CREDIT RISK

ASU Prep maintains cash balances at a financial institution, which is insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash may be in excess of FDIC insurance limits. ASU Prep has not experienced any losses in such accounts and management believes it is not exposed to any significant risks related to these accounts.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - PLEDGES RECEIVABLE

ASU Prep received a multi-year pledge from a foundation totaling \$10,000,000 during the year ended June 30, 2016. Noncurrent pledges are discounted at the rate of 1.25%. Pledges will be released from restrictions as ASU Prep fulfills purpose related restrictions. ASU Prep has never experienced any losses due to non-payment, and expects none from the June 30, 2018 balances, and therefore has not established an allowance for doubtful accounts.

Pledges receivable consisted of the following at June 30, 2018:

Receivable in less than one year	\$ 1,200,000
Receivable in one to five years	<u>3,600,000</u>
	4,800,000
Less adjustment for present value discount	<u>(88,160)</u>
Pledges receivable, net	<u>\$ 4,711,840</u>

NOTE 4 - LINE-OF-CREDIT

ASU Prep has a \$1,000,000 line-of-credit with a financial institution. Interest of 5.43% is payable monthly, with all outstanding principal and interest due in May 2019. As of June 30, 2018, the outstanding balance was \$700,000, and interest payable was \$2,941.

NOTE 5 - COLLABORATION AGREEMENT AND OPERATING LEASES

ASU Prep pays an annual administrative fee for its use of a school facility as part of a collaboration agreement. ASU Prep also leases modular buildings, office space, and equipment under the provisions of long-term lease agreements classified as operating leases. Rental expenses under these agreements for the year ended June 30, 2018 totaled \$1,573,678. Future minimum commitments are as follows:

Year ending June 30:	
2019	\$ 487,618
2020	183,562
2021	<u>45,390</u>
	<u>\$ 716,570</u>

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets released from restrictions for the year ending June 30, 2018 consisted of the following:

Academic programs	\$ 1,418,485
Tax credit contributions restricted for extracurricular activities	<u>79,571</u>
	<u>\$ 1,498,056</u>

Temporarily restricted net assets consisted of the following at June 30, 2018:

Academic programs	\$ 6,581,001
Tax credit contributions restricted for extracurricular activities	<u>212,081</u>
	<u>\$ 6,793,082</u>

NOTE 7 - RETIREMENT PLAN

Plan Description: Permanent full-time and certain part-time employees of ASU Prep participate in a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Funding Policy: The Arizona State Legislature establishes and may amend active plan members' and ASU Prep's contribution rates. For the year ended June 30, 2018, active plan members and ASU Prep were each required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent retirement and 0.16 percent long-term disability). ASU Prep's contributions to ASRS for the year ended June 30, 2018 were \$1,744,889, which was equal to the required contributions.

ASU Preparatory Academy

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: ASU Prep's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and Department of Education. While ASU Prep believes its schools are in compliance with all laws and regulations, such reviews could result in adjustments or withholding of the school's State Equalization or Classroom Site Funds. Management is not aware of any such adjustments or withholdings as of June 30, 2018.

NOTE 9 - ECONOMIC DEPENDENCY

For the year ended June 30, 2018, approximately 59% of ASU Prep's revenue was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), Instructional Improvement Funds, State of Arizona grants, and federal grants passed through the State of Arizona. Non-federal funds that are paid from the State of Arizona are subject to funding approval from the state legislature. Changes in state funding levels for charter schools could have a significant impact on ASU Prep's future revenues.

For the year ended June 30, 2018, approximately 70% of ASU Prep's contributions were derived from one donor.

NOTE 10 - RELATED PARTY TRANSACTIONS

ASU Prep has an affiliation agreement with ASU. ASU Prep recorded in-kind rent and professional services of \$2,789,291 received from ASU during the year ended June 30, 2018. In addition, ASU made contributions to ASU Prep totaling 6,000,000 during the year ended June 30, 2018.

NOTE 11 - SUBSEQUENT EVENTS

ASU Prep has evaluated subsequent events through September 7, 2018, 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, 2018 that would require adjustment to the financial statements. However, ASU Prep did note the following event that occurred subsequent to the year end that should be disclosed:

In July 2018, the operations of Phoenix Collegiate Academy, Inc., a public charter school in Arizona, merged with ASU Prep. Phoenix Collegiate Academy, Inc. consisted of three charter schools.

ASU Preparatory Academy

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS	<u>ASU Preparatory Academy</u>	<u>ASU Prep Global Academy</u>	<u>Young Scholars Academy, LLC</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:					
Cash	\$ 1,532,253	\$ 243,194	\$ 76,034		\$ 1,851,481
Due from government	694,791				694,791
Pledges receivable	1,200,000				1,200,000
Other receivables	833,426		55,474	\$ (807,723)	81,177
Prepaid expenses	<u>311,845</u>				<u>311,845</u>
Total current assets	4,572,315	<u>243,194</u>	<u>131,508</u>	<u>(807,723)</u>	4,139,294
Property and equipment:					
Furniture, fixtures and equipment	3,455,031				3,455,031
Leasehold improvements	767,360				767,360
Construction in progress	4,146,747				4,146,747
Less accumulated depreciation	<u>(2,082,966)</u>				<u>(2,082,966)</u>
	6,286,172				6,286,172
Pledges receivable, noncurrent, net	3,511,840				3,511,840
Other assets	<u>17,014</u>				<u>17,014</u>
Total assets	<u>\$ 14,387,341</u>	<u>\$ 243,194</u>	<u>\$ 131,508</u>	<u>\$ (807,723)</u>	<u>\$ 13,954,320</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 3,036,025	\$ 807,723	\$ 111,333	\$ (807,723)	\$ 3,147,358
Accrued payroll and related	725,303				725,303
Line of credit payable	700,000				700,000
Deferred revenue	<u>51,841</u>	<u>4,450</u>	<u>14,789</u>		<u>71,080</u>
Total current liabilities	4,513,169	812,173	126,122	(807,723)	4,643,741
Net assets (deficit):					
Unrestricted	3,081,090	(568,979)	5,386		2,517,497
Temporarily restricted	<u>6,793,082</u>				<u>6,793,082</u>
Total net assets (deficit)	<u>9,874,172</u>	<u>(568,979)</u>	<u>5,386</u>		<u>9,310,579</u>
Total liabilities and net assets (deficit)	<u>\$ 14,387,341</u>	<u>\$ 243,194</u>	<u>\$ 131,508</u>	<u>\$ (807,723)</u>	<u>\$ 13,954,320</u>

ASU Preparatory Academy

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	ASU Preparatory Academy			ASU Prep Global Academy			Young Scholars Academy, LLC			Total
	Unrestricted	Temporarily Restricted	Subtotal	Unrestricted	Temporarily Restricted	Subtotal	Unrestricted	Temporarily Restricted	Subtotal	
Revenue and support:										
State aid	\$ 17,663,847		\$ 17,663,847							\$ 17,663,847
Grants	1,801,603		1,801,603							1,801,603
Charges for services	541,748		541,748	\$ 44,144		\$ 44,144	\$ 672,654		\$ 672,654	1,258,546
Contributions	8,584,513		8,584,513							8,584,513
Tax credit contributions		\$ 103,170	103,170							103,170
Student activities	296,729		296,729							296,729
In-kind services	2,042,828		2,042,828				918,083		918,083	2,960,911
Miscellaneous	196,348		196,348	208,196		208,196				404,544
Net assets released from restrictions:										
Satisfaction of donor requirements	1,498,056	(1,498,056)								
Total revenue and support	<u>32,625,672</u>	<u>(1,394,886)</u>	<u>31,230,786</u>	<u>252,340</u>		<u>252,340</u>	<u>1,590,737</u>		<u>1,590,737</u>	<u>33,073,863</u>
Expenses:										
Program services:										
Instruction	13,507,460		13,507,460	179,215		179,215	1,182,470		1,182,470	14,869,145
Instructional support	3,522,361		3,522,361	203,766		203,766	268,948		268,948	3,995,075
Supporting services:										
Management and general	9,959,283		9,959,283	433,503		433,503	52,270		52,270	10,445,056
Operation and maintenance	3,298,620		3,298,620	4,835		4,835				3,303,455
Transportation	333,356		333,356							333,356
Operation of noninstructional services	1,039,245		1,039,245							1,039,245
Depreciation	667,782		667,782							667,782
Total expenses	<u>32,328,107</u>		<u>32,328,107</u>	<u>821,319</u>		<u>821,319</u>	<u>1,503,688</u>		<u>1,503,688</u>	<u>34,653,114</u>
Change in net assets	297,565	(1,394,886)	(1,097,321)	(568,979)		(568,979)	87,049		87,049	(1,579,251)
Net assets (deficit), beginning of year	<u>2,783,525</u>	<u>8,187,968</u>	<u>10,971,493</u>				<u>(81,663)</u>		<u>(81,663)</u>	<u>10,889,830</u>
Net assets (deficit), end of year	<u>\$ 3,081,090</u>	<u>\$ 6,793,082</u>	<u>\$ 9,874,172</u>	<u>\$ (568,979)</u>		<u>\$ (568,979)</u>	<u>\$ 5,386</u>		<u>\$ 5,386</u>	<u>\$ 9,310,579</u>

ASU Preparatory Academy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of Agriculture</u>				
Passed through Arizona Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	ED09-0001	10.553	\$ 50,903	
National School Lunch Program	ED09-0001	10.555	<u>235,760</u>	
<i>Total Child Nutrition Cluster</i>			286,663	
Child and Adult Care Food Program	KR02-1170-ALS	10.558	<u>101,529</u>	
Total U.S. Department of Agriculture			<u>388,192</u>	
<u>U.S. Department of Education</u>				
Education Innovation and Research	N/A	84.411	426,874	
Passed through Arizona Department of Education				
Title I Grants to Local Educational Agencies	S010A040003	84.010	503,920	
Special Education Cluster (IDEA):				
Special Education Grants to States	H027A0090007	84.027	254,234	
Charter Schools	17FCSP17-710658-01	84.282	<u>223,383</u>	
Total U.S. Department of Education			<u>1,408,411</u>	
Total Expenditures of Federal Awards			<u>\$ 1,796,603</u>	

See accompanying notes to this schedule.

ASU Preparatory Academy

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of ASU Preparatory Academy (ASU Prep) recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantors or the 2018 *Catalog of Federal Domestic Assistance*.

NOTE 3 - INDIRECT COST RATE

ASU Prep did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 4 - SUBRECIPIENTS

ASU Prep did not pass any funds onto subrecipients during the year ended June 30, 2018.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ASU Preparatory Academy (ASU Prep), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ASU Prep'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 ASU Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of ASU Prep'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ASU Prep'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*.

ASU Prep's Response to Findings

ASU Prep's response to the findings in our audit is presented in its corrective action plan at the end of this report. ASU Prep's response was 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 ASU Prep's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ASU Prep's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

September 7, 2018



**Independent Auditors' Report on Compliance For Each Major Federal Program
and Report on Internal Control Over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited ASU Preparatory Academy's (ASU Prep) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ASU Prep's major federal programs for the year ended June 30, 2018. ASU Prep's major federal programs are identified in the summary of the 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 ASU Prep'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 ASU Prep'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 ASU Prep's compliance.

Opinion on Each Major Federal Program

In our opinion, ASU Prep 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, 2018.

Report on Internal Control Over Compliance

Management of ASU Prep 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 ASU Prep'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 ASU Prep'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Fester & Chapman, PLLC

September 7, 2018

ASU Preparatory Academy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report issued:	Unmodified	
	Yes	No
Material weaknesses identified in internal control over financial reporting?	_____	_____ <u>X</u> _____
Significant deficiencies identified not considered to be material weaknesses?	_____ <u>X</u> _____	_____
Noncompliance material to the financial statements noted?	_____	_____ <u>X</u> _____

Federal Awards

Material weakness identified in internal control over major programs?	_____	_____ <u>X</u> _____	
Significant deficiencies identified not considered to be material weaknesses?	_____	_____ <u>X</u> _____	(None reported)

Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	_____	_____ <u>X</u> _____

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee?	_____ <u>X</u> _____	_____
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Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR §200.511(b)?	_____ <u>X</u> _____	_____
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ASU Preparatory Academy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS

2018-001 Cash

Criteria:

ASU Prep's financial statements should be presented in accordance with GAAP. Further, Financial Accounting Standards Board Accounting Standards Codification topic of *Not-for-Profit Entities*, and American Institute of Certified Public Accountants *Accounting and Auditing Guide - Not-for-Profit Entities* provide requirements that should be adhered to properly present a nonprofit's financial statements.

Condition:

Audit adjustments were necessary to properly state cash and expenses as of and for the year ended June 30, 2018.

Cause:

ASU Prep did not address cash balance variances in its bank reconciliations during the year ending June 30, 2018.

Effect:

Prior to posting the necessary audit adjustments, cash was understated and expenses were overstated by approximately \$74,000 as of and for the year ending June 30, 2018.

Recommendation:

ASU Prep should strengthen its policies and procedures related to the review of its bank reconciliations during the year in order to determine whether cash balances are accurate and are recorded in accordance with Financial Accounting Standards Board Accounting Standards Codification topic of *Not-for-Profit Entities*.

ASU Prep's responsible officials' views and planned corrective action are included in its corrective action plan located at the end of this report.

ASU Preparatory Academy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS - Continued

2018-002 Prepaid expenses

Criteria:

ASU Prep's financial statements should be presented in accordance with GAAP. Further, Financial Accounting Standards Board Accounting Standards Codification topic of *Not-for-Profit Entities*, and American Institute of Certified Public Accountants *Accounting and Auditing Guide - Not-for-Profit Entities* provide requirements that should be adhered to properly present a nonprofit's financial statements.

Condition:

Audit adjustments were necessary to properly state prepaid expenses and expenses as of and for the year ended June 30, 2018.

Cause:

ASU Prep expensed instructional materials that were not received or used by year end.

Effect:

Prior to posting the necessary audit adjustments, prepaid expenses were understated and expenses were overstated by approximately \$248,000 as of and for the year ending June 30, 2018.

Recommendation:

ASU Prep should strengthen its policies and procedures related to the review of goods received during the year, especially near year end, to determine whether any purchases should be recorded as prepaid expenses in accordance with Financial Accounting Standards Board Accounting Standards Codification topic of *Not-for-Profit Entities*.

ASU Prep's responsible officials' views and planned corrective action are included in its corrective action plan located at the end of this report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



CORRECTIVE ACTION PLAN

September 7, 2018

U.S. DEPARTMENT OF AGRICULTURE
U.S. DEPARTMENT OF EDUCATION

ASU Preparatory Academy respectfully submits the following corrective action plan for the year ended June 30, 2018:

FINANCIAL STATEMENT FINDINGS

2018-001 Cash

Recommendation:

ASU Prep should strengthen its policies and procedures related to the review of its bank reconciliations during the year in order to determine whether cash balances are accurate and are recorded in accordance with Financial Accounting Standards Board Accounting Standards Codification topic of *Not-for-Profit Entities*.

Action Taken:

ASU Prep will implement processes to strengthen our current policies and procedures to ensure that cash within the accounting records reconcile to cash within our bank account in accordance with Financial Accounting Standards Board Accounting Standards Codification topic of Not-for-Profit Entities. ASU Prep has transitioned to a new financial record system in which discrepancies as such are prevented due to controls within the system. The Chief Financial Officer and Senior Accounting Manager will review these controls monthly to ensure they are maintained to ensure accurate reporting.

2018-002 Prepaid Expenses

Recommendation:

ASU Prep should strengthen its policies and procedures related to the review of goods received during the year, especially near year end, to determine whether any purchases should be recorded as prepaid expenses in accordance with Financial Accounting Standards Board Accounting Standards Codification topic of *Not-for-Profit Entities*.

Action Taken:

ASU Prep will implement processes to strengthen our current policies and procedures to review its prepaid expenditures to ensure they are recorded in the accounting records in accordance with Financial Accounting Standards Board Accounting Standards Codification topic of Not-for-Profit Entities. The Chief Financial Officer and Senior Accounting Manager will review prepaid expenses during the purchasing process to ensure all items are coded appropriately. The \$248,000 referred to in the prepaid expense finding, primarily consisted of curriculum purchases that were received prior to June 30, 2018. Staying consistent with prior practices, these items were expensed in the audited year.

If the Department of Education has questions regarding this plan, please call 480-727-2432.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2018

Status of Prior Year Financial Statement Findings

Finding No.: 2017-001 Capital Assets

Status: Fully Corrected.