ALLSPORT ACADEMY

Audited Financial Statements

June 30, 2010

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CHARVOZ & FORTINO PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Independent Auditor's Report

Board of Directors and Stockholders
Allsport Academy
Tucson, Arizona

We have audited the accompanying statement of financial position of Allsport Academy (a nonprofit organization) as of June 30, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allsport Academy as of June 30, 2010, and the results of its activities and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles

In accordance with *Government Auditing Standards,* we have also issued our report dated November 9, 2010 on our consideration of Allsport Academy's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 8 to the financial statements, the School has suffered recurring losses from operations and has a working capital deficit, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Charvoz & Fortino, PLLC

Charvoz & Fortino, PLLC
Tucson, Arizona
November 9, 2010

MEMBERS OF THE AMERICAN INSTITUTE AND ARIZONA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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ALLSPORT ACADEMY
Statement of Financial Position
June 30, 2010

ASSETS		
Current Assets:		
Cash	$	5,177
Accounts receivable		3,525
Prepaid expenses		40
Total Current Assets		8,742
Property and Equipment, net		21,278
Deposits		10,171
Total Assets	$	40,191
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	60,595
Accrued payroll and related liabilities		186,748
Refundable advances		12,107
Accrued interest		45,031
Short term lease payable		2,750
Short term notes payable		209,180
Total Current Liabilities		516,411
Non-Current Liabilities:		
Long term lease payable		7,196
Long term notes payable		213,600
Total Non-Current Liabilities		220,796
Total Liabilities		737,207
NET ASSETS		
Unrestricted net assets		(697,016)
Total Net Assets		(697,016)
Total Liabilities and Net Assets	$	40,191

The accompanying notes are an integral part of these financial statements.

BCS486

ALLSPORT ACADEMY
Statement of Activities
Year Ending June 30, 2010

CHANGES IN UNRESTRICTED NET ASSETS		
Support, Revenue and Reclassifications:		
State equalization program	$	362,786
Other state funding		20,736
Federal grants		71,738
Interest and other		9,441
Total Unrestricted Support and Revenue		464,701
Expenses:		
Program Services:		
Academic programs		394,629
Supporting:		
General and administration		170,117
Total Expenses		564,746
Decrease in Unrestricted Net Assets		(100,045)
NET ASSETS BEGINNING OF YEAR		(596,971)
NET ASSETS END OF YEAR	$	(697,016)

The accompanying notes are an integral part of these financial statements.

BCS487

ALLSPORT ACADEMY
Statement of Cash Flows
Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in Net Assets	$	(100,045)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation and amortization		8,637
Changes in operating assets and liabilities:		
Prepaid expenses		(40)
Accounts receivable		(509)
Accounts payable		(21,234)
Refundable advances		12,107
Accrued interest		21,655
Accrued payroll and related liabilities		80,179
Net Cash Provided By Operating Activities		750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(1,573)
Net Cash Used By Investing Activities		(1,573)
DECREASE IN CASH		(823)
CASH AT BEGINNING OF YEAR		6,000
CASH AT END OF YEAR	$	5,177
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$	23,061
Schedule of Noncash Investing and Financing Transactions		
Capital lease obligation incurred for use of equipment	$	9,946

The accompanying notes are an integral part of these financial statements.

BCS488

NOTE 1 -- PURPOSE AND ORGANIZATION

Nature of Operations

Allsport Academy was organized as a not-for-profit organization established in the State of Arizona in July 2009 to operate as a charter school providing middle school and high school education in Tucson, Arizona and is doing business as Allsport Academy (the "School"). Allsport Academy markets to students who desire to maintain a healthy lifestyle by emphasizing athletic achievement as well as scholastic achievement.

Allsport Academy is an organization exempt from income taxation under Section 501 (a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. It is not classified as a private foundation.

Summary of Significant Accounting Policies

The accounting policies followed by the School and the methods of applying those policies which materially affect the determination of its financial position, results of operations, or cash flows are summarized below.

General

The accompanying financial statements have been prepared in accordance with the standards for external financial reporting for not-for-profit organizations; these standards require a statement of financial position, a statement of activities and a statement of cash flows. They also require the classification of resources into three classes of net assets based on the absence or existence of donor-imposed restrictions.

In order to observe restrictions, which donors place on grants and other gifts, as well as designations made by the Board of Directors, all assets, liabilities and activities are accounted for in the following net asset classifications:

Unrestricted Net Assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by actions of the School to meet the stipulations or become unrestricted at a date specified by the donor.

Permanently Restricted Net Assets - subject to donor-imposed stipulations that they be retained and invested permanently by the School.

The School has no permanently restricted net assets.

Revenue and Support

Revenue consists mainly of equalization payments and classroom site fund money from the State of Arizona and federal grants. State of Arizona revenue is recorded as increases in unrestricted net assets as earned. Accounts receivable at June 30, 2010 consist of amounts due from the State of Arizona and are considered fully collectable.

Contributions and grants are recorded when unconditionally promised to the School and are considered available for the School's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. The School defers federal grant revenues received under approved awards to the extent they exceed expenses incurred for the purposes specified under the grant restrictions. These funds are reported as refundable advances.

BCS489

NOTE 1 -- PURPOSE AND ORGANIZATION (Continued)

Donations-In-Kind and Contributed Services
Material donations-in-kind items received by the School are recorded as income along with a corresponding charge to expense or capitalized cost.

Property and Equipment
Property and equipment is stated at cost. Acquisitions of property and equipment valued over $500 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or in the case of leasehold improvements the lower of the estimated useful life or the remaining lease term.

Statement of Cash Flows
The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates in the Preparation of Financial Statement Amounts
The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

NOTE 2 -- PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2010 consists of:

Leasehold improvements	$ 13,048
Furniture and equipment	19,463
Vehicles	44,000
	76,511
Less accumulated depreciation	(55,233)
	$ 21,278

NOTE 3 -- SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through November 9, 2010, the date the financial statements were available to be issued.

NOTE 4 -- RELATED PARTY TRANSACTIONS

Included in accounts payable at June 30, 2010 is $16,908 payable to Raquel and Moses Montoya, board members and members of management, for expense reimbursements and $20,359 for accrued interest on loans. Cash paid to these related parties for reimbursements and interest totaled $23,061 for the year ended June 30, 2010. Additionally, $92,850 of accrued payroll is due to these same related parties.

BCS490

NOTE 5 -- NOTES PAYABLE

Long term notes payable at June 30, 2010 consist of the following:

Note payable to Moses Montoya, no interest accruing and principal due on demand made for working capital	$ 32,780
Note payable to Eastpointe High, Inc., interest only payments of 8.0%, a balloon payment of $176,400 was due January 1, 2009	176,400
Note payable to Moses Montoya, interest accrues at 6% and interest and principal were due July 1, 2010 made for vehicle purchase	30,000
Note payable to Moses Montoya, interest accrues at 14.7% payable monthly with the principal due July 1, 2012	183,600
	422,780
Less short term amounts	(209,180)
	$ 213,600

The School was unable to pay the full amount of the note due to Eastpointe High on the original maturity date. The School borrowed $183,600 from a stockholder and remitted that amount against the note. A new note was written extending the maturity date of the remaining $176,400 until December 1, 2007. During 2008, Eastpointe High, Inc. extended the maturity again to January 1, 2009. The School is currently in negotiations with Eastpointe High on an additional extension of the maturity date.

This note payable to Eastpointe High, Inc. is collateralized by substantially all of the assets of the School and a personal guarantee of two of the School's board members.

Principal maturities of the notes as of June 30, 2010 are as follows:

2011	$ 209,180
2012	30,000
2013	183,600
	$422,780

Total interest expense for the year ending June 30, 2010 was approximately $44,700.

NOTE 6 -- OBLIGATIONS UNDER LEASES

Operating Leases

The School leases two buildings which are used for administrative and educational purposes.

The first lease term is for five years with an initial lease rate of $3,500 per month and increasing 5% per year annually on the anniversary date.

The second lease term is for seven years with an initial lease rate of $4,456 per month and increasing 5% per year annually on the anniversary date.

The following is the schedule of future minimum lease payments required under these leases:

2011	$ 104,400
2012	107,600
2013	113,000
2014	65,000
2915	68,000
	$458,000

Rent expense for the year ending June 30, 2010 totaled $111,992.

Capital Lease

The school acquired a copier under the provisions of a long-term lease agreement classified as a capital lease. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is depreciated over its related lease term.. Amortization of the asset under the capital lease is included in depreciation expense for the fiscal year ended June 30, 2010. The copier is included in property at an estimated net value of $9,900 at June 30, 2010. Future minimum payments under this lease are $2,750 for the year ending June 30, 2011, $2,500 June 30, 2012, $2,800 June 30, 2013, and $700 June 30, 2014. Estimated interest on the lease is $1,100.

NOTE 7 -- CONCENTRATIONS

Credit Risk: The School maintains cash balances in one financial institution in Tucson, Arizona. Cash balances at this institution are insured up to $250,000 by the FDIC. For the year ended June 30, 2010, the School did not have any uninsured cash balances.

Compliance – The School's compliance with certain laws and regulations is subject to review by its Sponsor and the State of Arizona, Office of the Auditor General, and the Arizona Department of Education. Such reviews could result in an adjustment of State equalization assistance or other corrective action.

NOTE 8 -- GOING CONCERN

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. The School has incurred recurring losses from operations and has a working capital deficit, which raises substantial doubt about its ability to continue as a going concern.

Management's plans regarding these matters include:

- Increasing the student count by advertising. The increased student count will result in additional State funding.
- Decrease costs and expenses wherever possible.
- Renegotiate terms on the note payable to Eastpointe High, Inc.
- Renegotiate the terms on the lease of the Craycroft property that is not in use.
- Use its not for profit status to secure federal grant monies.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CHARVOZ & FORTINO PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Board of Directors
Allsport Academy
Tucson, Arizona

We have audited the financial statements of Allsport Academy as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 on financial reporting as item 2010-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allsport Academy's financial statements are free of 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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management, the State of Arizona, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties

Charvoz & Fortino, PLLC

Charvoz & Fortino, PLLC
Tucson, Arizona
November 9, 2010

MEMBERS OF THE AMERICAN INSTITUTE AND ARIZONA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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ALLSPORT ACADEMY
Schedule of Findings on Financial Reporting
Year Ended June 30, 2010

2010-1	Condition /Context	The School does not have adequate procedures in place to ensure that liabilities and net asset balances in the general ledger are recorded in accordance with generally accepted accounting principles (GAAP.)
	Criteria	Internal control over the recording of transactions should include a review to ensure that generally accepted accounting principles are correctly applied.
	Effect	Material errors were present in the School's financial statements.
	Cause	The School did not make adjusting journal entries in the prior year correctly, did not reconcile the beginning year net asset balances to the prior year, did not record a capital lease in the current year, and did not properly accrue payroll taxes in the current year.
	Recommendation	Management should instruct its contracted accounting firm to implement internal control procedures for reviewing the recording of accounting transactions to assist in detecting and correcting errors in the application of GAAP.
	Corrective Action Plan	Management concurs with the finding and will implement the recommendation as soon as possible