ALLSPORT ACADEMY
Tucson, Arizona

FINANCIAL STATEMENTS
June 30, 2012 and 2011

YUNK & GUTHRIE, CPAs, PLLC
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TABLE OF CONTENTS

	Page(s)
Independent Auditors' Report	**1**
Financial Statements	
Statement 1 - Statements of Financial Position	**2**
Statement 2 - Statements of Activities and Changes in Net Assets	**3**
Statement 3 - Statements of Cash Flows	**4**
Statement 4 - Statement of Functional Expenses 2012	**5**
Statement 5 - Statement of Functional Expenses 2011	**6**
Notes to Financial Statements	**7-12**
Summary Schedule of Prior Year Audit Findings	**13-16**
Schedule of Findings and Questioned Costs	**17-23**
Report on Internal Control over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	**24-25**

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LOREN YUNK, CPA, MBA, MEMBER DARIN GUTHRIE, CPA, MSA, MEMBER

Independent Auditors' Report

Board of Directors
Allsport Academy
Tucson, Arizona

We have audited the accompanying statement of financial position of Allsport Academy (the School) as of June 30, 2012 and 2011 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the organization'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 for financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards required that we plan and perform the audits 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Allsport Academy as of June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also issued a report dated November 13, 2012 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 9 to the financial statements, the School has suffered recurring losses from operations, has a working capital deficit, and a deficit in net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Yunk & Guthrie CPAs, PLLC

Tucson, Arizona
November 13, 2012

ALLSPORT ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 33,092	$ 13,829
Accrued receivables	1,838	5,933
Other receivables	-	1,000
Prepaid expenses	10,258	-
Total current assets	45,188	20,762
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $ 65,660 and $ 60,660 as of June 30, 2012 and 2011, respectively	12,229	13,165
OTHER ASSETS		
Deposits	6,666	4,921
TOTAL ASSETS	$ 64,083	$ 38,848
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses (See Note 10)	$ 202,835	$ 244,158
Interest payable	63,456	87,943
Taxes payable	63,780	71,286
Deferred Revenue	38,143	-
Demand notes payable	223,080	239,180
Current portion of capital lease	3,369	2,151
Current portion of long term debt	5,104	4,598
Total current liabilities	599,767	649,316
LONG TERM LIABILITIES		
Notes payable, net of current portion (See Note 5)	5,722	194,426
Obligations under capital lease, net of current portion	742	3,345
Total long term liabilities	6,464	197,771
TOTAL LIABILITIES	606,231	847,087
NET ASSETS, unrestricted (See Note 10)	(542,148)	(808,239)
TOTAL LIABILITIES AND NET ASSETS	$ 64,083	$ 38,848

These financial statements should be read only in connection with the accompanying notes to the financial statements.

STATEMENT 2

ALLSPORT ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	2012	2011
UNRESTRICTED REVENUES AND OTHER SUPPORT		
Tuition earned from State of Arizona, Department of Education	$ 538,653	$ 342,713
Funds from State of Arizona, Department of Education under Proposition 301	25,265	14,190
Grants	79,512	116,233
Contributions	3,748	950
Other income	21,173	13,146
Total unrestricted revenues and other support	668,351	487,232
EXPENSES		
Program services	576,055	544,259
General and administrative	91,704	86,370
Total expenses	667,759	630,629
OTHER INCOME		
Gain on loan forgiveness (See Note 5)	265,499	-
Increase (Decrease) in Unrestricted Net Assets	266,091	(143,397)
NET ASSETS, BEGINNING OF THE YEAR (See Note 10)	(808,239)	(664,842)
NET ASSETS, END OF THE YEAR	$ (542,148)	$ (808,239)

These financial statements should be read only in connection with the accompanying notes to the financial statements.

STATEMENT 3

ALLSPORT ACADEMY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 266,091	$(143,397)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	4,999	5,427
Gain on loan forgiveness	(265,499)	-
Changes in operating assets and liabilities:		
Decrease (increase) in accrued receivables	4,095	(2,408)
Decrease (increase) in grants receivable	1,000	(1,000)
(Increase) decrease in prepaid expenses	(10,258)	40
(Increase) decrease in deposits	(1,745)	5,250
(Decrease) increase in accounts payable and accrued expenses (See Note 10)	(41,323)	28,988
(Decrese) increase in taxes payable	(7,506)	71,286
(Decrease) increase in interest payable	(24,487)	42,912
Increase in deferred revenue	38,143	-
(Decrease) in refundable deposits	-	(12,107)
Net Cash (Used in) Operating Activities	(36,490)	(5,009)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(4,063)	-
Proceeds from disposals of fixed assets	-	2,687
Net Cash (Used In) Provided By Investing Activities	(4,063)	2,687
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing under notes payable	61,201	16,500
Payments on notes payable	-	(1,076)
Payments on capital lease obligations	(1,385)	(4,450)
Net Cash Provided by Financing Activities	59,816	10,974
Net Increase in Cash and Cash Equivalents	19,263	8,652
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,829	5,177
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 33,092	$ 13,829
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 55,635	$ 47,835
Related party debt forgiveness	$ 265,499	$ -

These financial statements should be read only in connection with the accompanying notes to the financial statements.

ALLSPORT ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Program Services	General and Administrative	Total
Advertising	$ 5,446	$ 605	$ 6,051
Bad debt expense	3,375	-	3,375
Communications	8,062	896	8,958
Computer expense	1,618	180	1,798
Contract services	20,458	2,273	22,731
Dues and subscriptions	4,325	481	4,806
Field trips	1,308	-	1,308
Food	34,935	-	34,935
Insurance	3,358	373	3,731
Interest	31,148	-	31,148
Office expense	2,224	247	2,471
Other program cost	21,955		21,955
Payroll expense	262,966	65,741	328,707
Payroll taxes	25,513	6,378	31,891
Penalties and fines	1,678	186	1,864
Professional development	7,007	-	7,007
Professional fees	363	40	403
Rent	71,362	7,929	79,291
Repairs and maintenance	11,489	1,277	12,766
Student transport	29,803	3,311	33,114
Supplies	14,581	-	14,581
Utilities	8,882	987	9,869
Total Expenses before Depreciation	571,856	90,904	662,760
Depreciation	4,199	800	4,999
Total Functional Expenses	$ 576,055	$ 91,704	$ 667,759

These financial statements should be read only in connection with the accompanying notes to the financial statements.

ALLSPORT ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011

	Program Services	General and Administrative	Total
Advertising	$ 2,743	$ 305	$ 3,048
Communications	8,281	920	9,201
Computer expense	2,146	239	2,385
Contract services	15,480	1,720	17,200
Dues and subscriptions	1,973	219	2,192
Field trips	1,282	-	1,282
Food	24,066	-	24,066
Insurance	5,754	639	6,393
Interest	47,835	-	47,835
Office expense	1,887	210	2,097
Other program cost	8,389		8,389
Payroll expense	241,434	60,358	301,792
Payroll taxes	19,875	4,969	24,844
Penalties and fines	17,404	1,934	19,338
Professional development	3,230	-	3,230
Professional fees	9,900	1,100	11,000
Rent (See Note 10)	70,234	7,804	78,038
Repairs and maintenance (See Note 10)	20,483	2,276	22,759
Student transport	13,657	1,518	15,175
Supplies	12,027	-	12,027
Utilities	11,620	1,291	12,911
Total Expenses before Depreciation	539,700	85,502	625,202
Depreciation	4,559	868	5,427
Total Functional Expenses	$ 544,259	$ 86,370	$ 630,629

These financial statements should be read only in connection with the accompanying notes to the financial statements.

NOTE 1 – NATURE OF OPERATIONS

Allsport Academy (the School) is a nonprofit organization located in Tucson, Arizona, incorporated pursuant to the laws of the State of Arizona on March 16, 2000 with the purpose of creating a teaching environment in the community where bilingual, bicultural, multidimensional liberating education in science, mathematics, technology, art, and literature can be achieved. As the charter operator, the School provides educational services according to the educational standards established by law and the charter contract. The School measures the pupils' progress toward outcomes adopted and specified by the Arizona State Board of Education.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION

The School reports under the accrual method of accounting. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-For-Profit Organizations*. Under ASC 958-205, the School 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.

Unrestricted Net Assets: Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

Temporarily Restricted Net Assets: Temporarily restricted net assets includes contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently Restricted Net Assets: Permanently restricted net assets includes contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The School had no temporarily or permanently restricted net assets at June 30, 2012 and 2011.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH EQUIVALENTS

The School considers all unrestricted liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost if purchased, or if donated, at the estimated fair market values at dates of receipt. Depreciation is calculated using the straight-line method. The estimated useful lives of these assets are 5 years for vehicles and furniture and equipment. Buildings and improvements have useful lives between 5 to 6 years.

REVENUE AND SUPPORT

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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. The School reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Federal and other government grant awards are classified as contract advances until expended for the purposes of the grants, if they are conditional promises to give.

IN-KIND DONATIONS OF SERVICES AND ASSETS

It is the policy of the School to record on its financial statements the fair market value of donations of personal professional services that require specialized skills as of the date services are rendered, provided those services would have been purchased if not provided by contribution. Material donations of in-kind items received by the School are recorded as income along with a corresponding charge to expense or capitalized cost. No in-kind contributions were recorded for the years ended June 30, 2012 and 2011.

FUNCTIONAL EXPENSES

Functional expenses have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities. Depreciation expense was allocated based upon percentage of other program and supporting service expenses incurred to total expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The School filed for exemption from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and is pending approval. The School is not a private foundation.

SUBSEQUENT EVENTS

In accordance with ASC 855, *Subsequent Events*, the School evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on November 13, 2012.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2012	2011
Vehicles	$ 47,300	$ 44,000
Furniture, fixtures and equipment	17,541	16,777
Leasehold improvements	13,048	13,048
Total property and equipment	77,889	73,825
Less: accumulated depreciation	(65,660)	(60,660)
Net property and equipment	$ 12,229	$ 13,165

Depreciation expense was $ 4,999 and $ 5,427 for the years ended June 30, 2012 and 2011, respectively.

NOTE 4 – OBLIGATIONS UNDER CAPITAL LEASES

The School leases a copier under a capital lease. The economic substance of the lease is that the School is financing the acquisition of the asset through the lease, and accordingly, it is recorded in the School's assets and liabilities. Amortization of the capital lease is included in the depreciation expense. The lease requires monthly payments of $ 255 and matures on September 1, 2013

The following is a schedule by years of future minimum payments required under the capital lease together with their present values as of June 30, 2012.

Year ending June 30:	2013	$ 4,080
	2014	765
Total minimum lease payments		4,845
Less amount representing interest		(734)
Present value of minimum lease payments		$ 4,111

NOTE 5 – DEBT

The School's debt at June 30 is as follows:

	2012	2011
Demand notes payable		
Uncollateralized note payable to two board members with no interest accruing and principal due and on demand. A portion of this note was forgiven on June 30, 2012 (see Note 7).	$ 16,680	$ 32,780
Uncollateralized note payable to a board member, 6% interest (see Note 7).	30,000	30,000
Note payable to acquisition note holder, 8% interest. Collateralized by substantially all of the assets of the School and a personal guarantee of two of the School's board members.	176,400	176,400
Total demand notes payable	$ 223,080	$ 239,180
Notes payable		
Uncollateralized note payable, 10.5% interest, minimum monthly payments of $ 500, all accrued interest and principle due on February 1, 2014.	$ 10,826	$ 15,424
Uncollateralized note payable to a board member, 14.7% interest accrues and is payable monthly. Forgiven on June 30, 2012.	- 0 -	186,300
Subtotal	10,826	199,024
Less current portion	(5,104)	(4,598)
Long-term notes payable	$ 5,722	$ 194,426

The future maturities of the notes payable are as follows:

Year ending June 30:	2013	$ 5,104
	2014	5,722
		$ 10,826

NOTE 6 – LEASE COMMITMENTS

The School commenced a lease for its main facilities on September 15, 2008. The lease term is seven years, beginning on September 15, 2008, with an initial lease rate of $ 4,456 per month and increasing 5% per year annually on the anniversary date. The School signed a lease for a new facility. The new lease payments are $ 6,666 per month for five years beginning on July 1, 2012. The School also leases other equipment on a month-to-month basis. The School leases two vehicles from related parties (See Note 7). One of the vehicle leases has a monthly rent of $ 754 for 36 months, starting on August 17, 2011. The other vehicle lease has a monthly payment of $ 210 for 24 months, starting on August 17, 2011. Total rent expense for the year ending June 30, 2012 was $ 79,291.

The following is a schedule of future minimum lease payments required under the facility lease:

Year ending June 30:	2013	$ 163,312
	2014	164,368
	2015	159,616
	2016	162,806
	2017	166,946
	Thereafter	14,608
		$ 831,657

NOTE 7 – RELATED PARTY TRANSACTIONS

Included in the School's debt at June 30, 2012 is $ 46,680 payable to board members for demand notes payable (See Note 5). Additionally, $ 154,663 of accrued payroll is due to two managing board members. Two board members lease vehicles to the School, and the total amount owed to the board members for this lease at June 30, 2012 is $ 10,608 (See Note 6).

NOTE 8 – CONCENTRATIONS

The School maintains a cash balance 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, 2012, the School did not have any uninsured cash balances.

The School participates in federal and state assisted grant and contract programs, and a significant reduction in the level of this support, if it were to occur, would have a material effect on its programs and activities. The School's compliance with certain laws and regulations is subject to audits by its Sponsor and the State of Arizona, Office of the Auditor General, and the Arizona Department of Education. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

NOTE 9 – 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.
- Decreasing costs and expenses wherever possible.
- Renegotiating terms on notes payable currently in default.
- Using 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.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

For the year ended June 30, 2011, rent expense was overstated by $ 18,000 and repairs expense was understated by $ 8,000, resulting in an overstatement of accounts payable and an understatement of net assets by $ 10,000. These misstatements were identified and corrected during the year ended June 30, 2012.

ALLSPORT ACADEMY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Findings – Internal Control over Financial Reporting

#2011-1 Significant deficiency – Preparation of financial statements in accordance with Generally Accepted Accounting Principals

Condition: We noted that the School does not prepare interim financial statements that are complete, including note disclosures in conformity with U.S. generally accepted accounting principles (GAAP). This finding is mitigated by the fact that management and the board of directors are informed of matters that normally would be disclosed in footnotes when the internally generated financials are presented.

Criteria: This is a requirement for an entity's system of internal controls to be complete.

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-1.

#2011-2 Significant deficiency – Segregation of duties

Condition: Due to the limited number of personnel performing accounting functions, the School does not have adequate segregation of duties over accounting transactions. The School has instituted alternative procedures involving diligence and oversight by the board of directors that mitigate the affects of this finding. Auditor believes that these mitigating procedures are the maximum that an organization this size can perform.

Criteria: Internal controls should be in place to provide that there is adequate segregation of duties.

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-2.

#2011-3 Significant deficiency – Review of Deposits

Condition: It was noted that deposits are not reviewed for accuracy by an individual not involved in the cash handling function.

Criteria: This is a requirement for the entity's system of internal controls to be complete.

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-3.

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Findings – Internal Control over Financial Reporting (Continued)

#2011-4 Significant deficiency – Monitoring over cash

Condition: Whereas such a review may be performed, it was noted that there was no indication of review of bank reconciliations, bank statements, or check images by a person in authority.

Criteria: This is a requirement for the entity's system of internal controls to be complete.

Current Status: We did not note this condition in the current audit.

Findings – Legal Compliance

#2011-5 Payroll taxes

Condition: It was noted that the School has not paid all federal payroll taxes that were incurred in the current year and also owes taxes incurred in prior years back to 2006. However, as of the date of field work, the School is in compliance with payment plan approved by the Internal Revenue Service (IRS) for these unpaid payroll tax liabilities.

Criteria: U.S.C. Title 26.

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-5.

#2011-6 Absences

Condition: It was noted that 4 of 5 sampled attendance records for junior high school students were not calculated correctly in the School's computerized attendance system, resulting in a net overstatement of 0.25 absences.

Criteria: Arizona Revised Statutes (A.R.S.) § 15-901(A)(6)(b)(i).

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-6.

#2011-7 Excessive absence withdrawals

Condition: It was noted that in 1 of 1 eligible case, a student withdrawn for excessive absences was not counted in membership only through the last day of attendance.

Criteria: A.R.S. § 15-901(A)(2).

Current Status: We did not note this condition in the current audit.

Findings – Legal Compliance (Continued)

#2011-8 Enrollment

Condition: It was noted in 1 of 5 enrollment entries tested, the following errors occurred:

- The entry date on the enrollment form did not agree to the computerized attendance system.
- The entry date was not supported by teacher's attendance registers.
- Membership did not begin with the actual first day of attendance per the attendance register.

Criteria: ADE's School Finance Procedures Manual.

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-7.

#2011-9 Withdrawals

Condition: It was noted that 6 of 6 Official Notices of Pupil Withdrawal tested had no indication of the date entered in the computerized attendance system.

Criteria: Legal compliance.

Current Status: We did not note this condition in the current audit.

#2011-10 Withdrawals

Condition: It was noted that 2 of 6 withdrawals tested did not have teachers' attendance registers that agreed to the exit date in the system.

Criteria: Legal compliance.

Current Status: We did not note this condition in the current audit.

#2011-11 Attendance submissions

Condition: It was noted that there was one incidence of submission of the School's membership/absence information to ADE which was 3 days greater than 20 school days after the previous submission.

Criteria: A.R.S. § 15-1042(H).

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-10.

Findings – Legal Compliance (Continued)

#2011-12 Open meeting law

Condition: It was noted that the School's website does not indicate where all public notices of meetings will be posted, and during the fiscal year, 10 of 11 public meeting notices was not posted on the School's website.

Criteria: A.R.S. § 38-431.01 and § 38-431.02.

Current Status: We noted a similar condition in the current year audit and it is repeated in the current year's findings as finding #2012-4.

#2011-13 Insurance

Condition: It was noted that as of the date of field work, the entity had no in force general liability insurance, professional liability insurance, directors and officers insurance, or personal property insurance.

Criteria: A.R.S. § 15-183(M).

Current Status: We did not note this condition in the current audit.

ALLSPORT ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Allsport Academy (the School).

2. Three control deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters. These conditions are reported as significant deficiencies, and are not reported as material weaknesses.

3. No instances on noncompliance material to the financial statements of the Academy, that would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. Eight reportable conditions were disclosed during the audit of Legal compliance and are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

ALLSPORT ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Findings – Internal Control over Financial Reporting

#2012-1 Significant deficiency – Preparation of financial statements in accordance with Generally Accepted Accounting Principals

Condition: We noted that the School does not prepare interim financial statements that are complete, including note disclosures in conformity with U.S. generally accepted accounting principles (GAAP). This finding is mitigated by the fact that management and the board of directors are informed of matters that normally would be disclosed in footnotes when the internally generated financials are presented.

Criteria: This is a requirement for an entity's system of internal controls to be complete.

Effect: As a result of this condition, there is a higher risk that errors, misstatements and misappropriations could occur and not be detected within a timely period.

Recommendation: Due to the size of the School, it would not be cost effective to generate a complete set of financial statements including note disclosures in conformity with U.S. GAAP. We recommend that, as a cost saving measure, the School continue to rely on its outside accountants and its auditors to assist in the preparation of the required financial statements, including all note disclosures, in accordance with U.S. GAAP. In addition, management and the board of directors should continue to exercise diligence in keeping informed of all matters.

Management's Response and Corrective Action Plan: The school will continue to rely on its outside accountants and its auditors to assist in the preparation of the required financial statements, including all notes disclosures, in accordance with U.S.GAAP. In addition, management and the board of directors will continue to exercise diligence in keeping informed of all matters.

Findings – Internal Control over Financial Reporting (Continued)

#2012-2 Significant deficiency – Segregation of duties

Condition: Due to the limited number of personnel performing accounting functions, the School does not have adequate segregation of duties over accounting transactions. Several members of the board of directors are part of management. The board members who are management are signers on the bank accounts and are on the School's payroll. There is no independent oversight by a third party. The School has instituted alternative procedures involving diligence and oversight by the board of directors that mitigate the affects of this finding. Auditor believes that these mitigating procedures are the maximum that an organization this size can perform.

Criteria: Internal controls should be in place to provide that there is adequate segregation of duties.

Effect: As a result of this condition, there is a higher risk that errors, misstatements and misappropriations could occur and not be detected within a timely period.

Recommendation: We recommend management's and the board of director's close supervision and review of accounting information as the best means of preventing or detecting errors and irregularities.

Management's Response and Corrective Action Plan: The school's management and board of directors will closely supervise and review accounting information as the best means of preventing and detecting errors and irregularities

#2012-3 Significant deficiency – Review of Deposits

Condition: It was noted that deposits are not reviewed for accuracy by an individual not involved in the cash handling function.

Criteria: This is a requirement for the entity's system of internal controls to be complete.

Effect: As a result of this condition, there is a higher risk that errors, misstatements and misappropriations could occur and not be detected within a timely period.

Recommendation: We recommend that deposits are reviewed for accuracy by an individual not involved in the cash handling function, and that such review is evidenced by a signature or initials of the reviewer on the deposit detail.

Management's Response and Corrective Action Plan: The school's policies have been revised and procedures have been adopted which ensure deposits are being reviewed for accuracy by an individual not involved in the cash handling function and that such review is evidenced by a signature or initials of the review on the deposit detail.

Findings – Legal Compliance

#2012-4 Open meeting law

Condition: The School's website did not contain a statement on its website stating where all public notices of its meetings will be posted. The School only had evidence of one meeting notice being posted on its website.

Criteria: ASBCS legal compliance per Arizona Revised Statutes (A.R.S.) §§ 38-431.01 and 38-431.02.

Effect: The School is not in compliance.

Recommendation: We recommend that the School update its website to include a statement on its website stating where all public notices of its meetings will be posted, both electronically and physically; that the School post all public meeting notices on its website henceforth; and that the School maintain evidence of all notices being posted on its website.

Management's Response and Corrective Action Plan: The school will update its website to include a statement on its website stating where all public notices of its meetings will be posted, both electronically and physically. Henceforth, the school will maintain evidence of all notices being posted on its website.

#2012-5 Payroll taxes

Condition: It was noted that the School owes taxes incurred in prior years. However, as of the date of testing, the School is in compliance with a payment plan approved by the Internal Revenue Service (IRS) for these payroll tax liabilities.

Criteria: U.S.C. Title 26.

Effect: The School is not in compliance.

Recommendation: We recommend that the School continue to make scheduled payments in accordance with the payment plan approved by the IRS.

Management's Response and Corrective Action Plan: The school will pay all taxes as they become due and will continue to make scheduled payments in accordance with the payment plan approved by IRS.

Findings – Legal Compliance (Continued)

#2012-6 Absences

Condition: It was noted that 1 of 5 sampled attendance records for junior high school students were not calculated correctly in the School's computerized attendance system, resulting in a net understatement of 0.5 absences.

Criteria: A.R.S. § 15-901(A)(6)(b)(i).

Effect: The School is not in compliance.

Recommendation: We recommend calibrating the School's computerized attendance system to correctly calculate absences.

Management's Response and Corrective Action Plan: School has contacted student management systems' provider to calibrate attendance system to be record absences.

#2012-7 Enrollment

Condition: It was noted in 1 of 5 enrollment entries tested, the entry date on the enrollment form did not agree to the computerized attendance system.

Criteria: ADE's School Finance Procedures Manual.

Effect: The School is not in compliance.

Recommendation: We recommend diligence in agreeing the computerized attendance records to the supporting teacher's attendance registers and enrollment forms.

Management's Response and Corrective Action Plan: School will be more diligent in following procedures for new enrollments assuring that attendance records align with teacher's rosters.

Findings – Legal Compliance (Continued)

#2012-8 Proof of residency

Condition: 2 of 7 student files tested at the elementary school were enrolled after September 22, 2012. 1 of those 2 student files did not have proof of residency on file. 2 of 5 student files tested at the middle school were enrolled after September 22, 2012. Those two student files did not have proof of residency on file.

Criteria: A.R.S. §15-802(B)(1)

Effect: The School is not in compliance.

Recommendation: We recommend that diligence be made that proof of residency be kept on file for all students.

Management's Response and Corrective Action Plan: The school has put procedures in place ensuring that proof of residency is required for all students upon enrollment.

#2012-9 Withdrawals

Condition: It was noted in 1 of 5 withdrawal entries tested, the withdrawal was not entered into the computerized attendance system within 5 working days.

Criteria: ADE's School Finance Procedures Manual.

Effect: The School is not in compliance.

Recommendation: We recommend diligence in entering the withdrawals into the computerized attendance system within the required time frame.

Management's Response and Corrective Action Plan: The school will be diligent in entering withdrawals into the computerized attendance system within the required time frame.

Findings – Legal Compliance (Continued)

#2012-10 Attendance submissions

Condition: It was noted that there was one incidence of submission of the School's membership/absence information to ADE that was 34 school days after the previous submission.

Criteria: A.R.S. § 15-1042(H).

Effect: The School is not in compliance.

Recommendation: We recommend diligence in submitting timely membership/absence information to ADE.

Management's Response and Corrective Action Plan: The school has revised procedures and set alarm reminders to assure that timely uploads are made to SAIS.

#2012-11 Attendance

Condition: 40th and 100th day membership and attendance reports in the schools' systems did not match 40th and 100th day reports in ADE/SAIS as follows:

40th day: Member days are under-reported to ADE/SAIS by 80 days.

100th day: Member days are under-reported to ADE/SAIS by 143 days.

Criteria: ADE's School Finance Procedures Manual.

Effect: The School is not in compliance.

Recommendation: We recommend that reconciliations be performed between the School's attendance systems and ADE/SAIS and corrections be made as needed.

Management's Response and Corrective Action Plan: The school will work with ADE/SAIS and the student management provider to determine why this error occurred and will make necessary corrections.

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LOREN YUNK, CPA, MBA, MEMBER DARIN GUTHRIE, CPA, MSA, MEMBER

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
Allsport Academy
Tucson, AZ

We have audited the financial statements of Allsport Academy (the School) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S.) 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 my 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 School's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items #2012-1, #2012-2, and #2012-3. 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.

Compliance and Other Matters

As part of obtaining, reasonable assurance about whether the School'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 my tests disclosed instances of noncompliance or other matters that are required to be reported under *Governments Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items #2012-4, #2012-5, #2012-6, #2012-7, #2012-8, #2012-9, #2012-10, and #2012-11.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yunk & Guthrie CPAs, PLLC

Tucson, AZ
November 13, 2012