# Audit #32126 - FY2012 - Arizona Connections Academy Charter School

CTDS: 07-85-11-000 • Entity ID: 87407

General | Engagement Letters | Packages | Financials | Findings | Action Plans | Notes

## Financials

Edit this section

| | |
|---|---|
| **Total Cash [Current Year]:** | $1,382,751 |
| **Total Cash [Prior Year]:** | $1,723,557 |
| **Restricted Cash:** | — |
| **Unrestricted Cash:** | $1,382,751 |
| **Unrestricted Days Cash:** | 50.22 |
| **Cash Flow [Year 3]:** | ($340,806) |
| **Cash Flow [Year 2]:** | $1,650,994 |
| **Cash Flow [Year 1]:** | ($297,055) |
| **Cash Flow [Cumulative]:** | $1,013,133 |
| **Total Assets:** | $1,542,360 |
| **Total Liabilities:** | $1,030,322 |
| **Current Portion of Long-Term Debt & Capital Leases:** | — |
| **Net Assets:** | $512,038 |
| **Total Liabilities to Equity Ratio:** | 2.01 |
| **Revenue:** | $10,355,469 |
| **Expenses:** | $10,049,929 |
| **Net Income:** | $305,540 |
| **Change in Net Assets:** | $305,540 |
| **Depreciation & Amortization Expense:** | $38,611 |
| **Interest Expense:** | — |
| **Lease Expense:** | $62,538 |
| **Fixed Charge Coverage Ratio:** | 6.50 |
| **Opinion Type:** | Clean or Unqualified |
| **Going Concern:** | No |
| **Default:** | No |
| **Bankruptcy:** | No |

*There are currently no notes.*

Create a New Note

### Financial Performance Framework

| | |
|---|---|
| **Going Concern:** | Meets |
| **Unrestricted Days Cash:** | Meets |
| **Default:** | Meets |
| **Total Liabilities to Equity Ratio:** | Meets |
| **Net Income:** | Meets |
| **Fixed Charge Coverage Ratio:** | Meets |
| **Cash Flow [3-Year Cumulative]:** | Does Not Meet |

# ARIZONA CONNECTIONS ACADEMY CHARTER SCHOOL

## FINANCIAL STATEMENTS AND
## INDEPENDENT AUDITORS' REPORT

## JUNE 30, 2012 AND 2011

**ARIZONA CONNECTIONS ACADEMY CHARTER SCHOOL**
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**JUNE 30, 2012 AND 2011**


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## Independent Auditors' Report

Board of Directors
Arizona Connections Academy Charter School

We have audited the accompanying financial statements of Arizona Connections Academy Charter School (School) as of June 30, 2012 and 2011 and for the years then ended, as listed in the table of contents. 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 audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Arizona Connections Academy Charter School 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 have also issued our report dated October 24, 2012 on our consideration of the School'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* and should be considered in assessing the results of our audit.

John C Todd II, P.C.

Phoenix, Arizona
October 24, 2012

**ARIZONA CONNECTIONS ACADEMY CHARTER SCHOOL**
**STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2012 AND 2011**

| | 2012 | 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,382,751 | 1,723,557 |
| Due from the State of Arizona | 133,235 | 185,071 |
| Prepaid expenses | 4,999 | 5,000 |
| Total current assets | 1,520,985 | 1,913,628 |
| Property and equipment, at cost, net of accumulated depreciation and amortization of $88,714 and $50,103, respectively | 19,965 | 57,387 |
| Other assets: | | |
| Deposits | 1,410 | 1,410 |
| Total assets | $ 1,542,360 | 1,972,425 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 656,230 | 1,555,708 |
| Deferred revenue | 374,092 | 210,219 |
| Total current liabilities | 1,030,322 | 1,765,927 |
| Net assets: | | |
| Unrestricted | 512,038 | 206,498 |
| Total net assets | 512,038 | 206,498 |
| Total liabilities and net assets | $ 1,542,360 | 1,972,425 |

See accompanying notes to financial statements.

**ARIZONA CONNECTIONS ACADEMY CHARTER SCHOOL**
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
**YEARS ENDED JUNE 30, 2012 AND 2011**

| | 2012 | 2011 |
|---|---|---|
| Changes in unrestricted net assets: | | |
| Revenues: | | |
| Governmental | $ 10,325,698 | 9,012,901 |
| Interest | 1,730 | 1,943 |
| Contributions | 10,778 | 6,044 |
| Other | | 3,506 |
| Auxiliary operations | 17,263 | 20,363 |
| Total unrestricted revenues | 10,355,469 | 9,044,757 |
| Expenses: | | |
| Program services | 8,368,448 | 7,943,041 |
| Support services | | |
| Management and general | 1,681,481 | 1,338,523 |
| Total expenses | 10,049,929 | 9,281,564 |
| Increase (decrease) in unrestricted net assets | 305,540 | (236,807) |
| Net assets, beginning of year | 206,498 | 443,305 |
| Net assets, end of year | $ 512,038 | 206,498 |

See accompanying notes to financial statements.

**ARIZONA CONNECTIONS ACADEMY CHARTER SCHOOL**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2012 AND 2011**

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Changes in net assets | $ 305,540 | (236,807) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 38,611 | 11,862 |
| (Increase) decrease in due from the State of Arizona | 51,836 | 330,382 |
| (Increase) decrease in prepaid expenses | 1 | (156) |
| Increase (decrease) in accounts payable and accrued expenses | (899,478) | 1,376,794 |
| Increase in deferred revenue | 163,873 | 210,219 |
| Net cash provided (used) by operating activities | (339,617) | 1,692,294 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (1,189) | (41,300) |
| Net cash provided (used) by investing activities | (1,189) | (41,300) |
| Net increase (decrease) in cash and cash equivalents | (340,806) | 1,650,994 |
| Cash and cash equivalents, beginning of year | 1,723,557 | 72,563 |
| Cash and cash equivalents, end of year | $ 1,382,751 | 1,723,557 |

See accompanying notes to financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arizona Connections Academy Charter School, (School) is a not-for-profit corporation established in the State of Arizona in 2005 to operate a charter school, to leverage technology to help each participating student maximize his or her potential and meet the highest performance standards using a uniquely individualized learning program that combines the best in virtual education with unique technology-based teacher productivity tools and very real connections among students, family, teachers, and the community. The School operates under a charter contract with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. The School provides educational services to approximately 1,600 students in kindergarten through twelfth grades throughout Arizona, and is funded primarily through state equalization assistance.

The significant accounting policies followed by the School are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses at the time liabilities are incurred. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, by actions of the School. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents - For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property and Equipment - Land, buildings and improvements with a cost of $1,000 or more and vehicles, furniture and equipment with both a cost of $1,000 or more and an estimated life of one year or more are capitalized. Assets are stated at cost or fair market value at date of gift if contributed. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of furniture and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets, which ranges from 5 to 7 years. Amortization of leasehold improvements is provided on a straight-line basis over the term of the respective lease.

Recognition of Donor Restricted Contributions - All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Concentration of Credit Risk - The School places its cash with high quality credit institutions. At times, such cash may be in excess of FDIC insurance limits.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of certain 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.

Income Tax Status - The School is exempt from Federal and Arizona income taxes under section 501(c)(3) of the Internal Revenue Code, as amended. However, income from certain activities not directly related to the School's tax-exempt purpose may be subject to taxation as unrelated business income. For the years ended June 30, 2012 and 2011, all of the School's income was either from activities related to its exempt purpose or excludable from unrelated business income by the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization other than a private foundation under section 509(a)(2). The School's information returns are subject to examination by taxing authorities generally for three years after they were filed. As of June 30, 2012, the returns for 2008, 2009, 2010, and 2011 remain subject to examination.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Subsequent Events – The School has reviewed all subsequent events through October 24, 2012, which was the date the financial statements were available to be issued.

Prior Year Amounts – Certain prior year amounts have been reclassified to conform with current year presentations.

## NOTE 2 – CASH AND CASH EQUIVALENTS

The School maintains all of its cash with two banks. The carrying amount of deposits at June 30, 2012 and 2011 were $1,382,751 and $1,723,557, respectively; the bank balances were $1,382,822 and $1,723,787, respectively. The bank balances are categorized as follows:

| | 2012 | 2011 |
|---|---|---|
| Amount insured by Federal Deposit Insurance Corporation | $ 1,382,822 | 278,780 |
| Uninsured | - | 1,445,007 |
| Total bank balances | $ 1,382,822 | 1,723,787 |

## NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2012 and 2011 follows:

| | 2012 | 2011 |
|---|---|---|
| Furniture and equipment | $ 73,869 | 72,680 |
| Leasehold improvements | 34,810 | 34,810 |
| | 108,679 | 107,490 |
| Accumulated depreciation and amortization | 88,714 | 50,103 |
| | $ 19,965 | 57,387 |

Depreciation and amortization expense totaled $38,611 and $11,862, respectively, for the years ended June 30, 2012 and 2011.

## NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases - The School leases facilities under the provisions of a long-term lease agreement classified as an operating lease. Additionally, the lease contained 1 option to renew for an additional 3 years, which was exercised in February 2009. The Lease ended June 30, 2012 but was continued on a month to month basis.

Rental expense under the lease for the years ended June 30, 2012 and 2011 totaled $62,538 and $55,630, respectively.

On July 12, 2012, the School signed a long-term lease agreement, classified as an operating lease. The commencement date of the lease will be the day that the building is ready as prescribed in the lease agreement. The lease will continue for a term of 61 months and total commitments under the lease approximate $808,000 over the term of the lease.

Professional Services Agreement - The School has a Professional Services Agreement (Agreement) with Connections Academy, L.L.C. (CA), through June 30, 2015. The Agreement could only be terminated before its expiration if a) both parties agree in writing to the termination; b) by CAA if the minimum number of enrolled students thirty (30) days prior to the start of school is less than one hundred; c) if either party materially breeches the Agreement and fails to cure such breech within ninety (90) days of notification; d) by the School if the governing board determines there is an imminent risk to the health and safety of students and CAA does not remedy the risk immediately; e) if the payments to which CAA is entitled when calculated on a per student basis are reduced below the amount received in the initial academic year; f) if the Arizona Department of Education or other regulatory authorities impose requirements that are materially different than those specified in the charter application or those provided during the initial academic year, and CAA is unwilling or unable to make any required changes to the education services; or g) by the School if the governing board determines, after a performance review, that the school has failed to make reasonable progress towards student academic achievement.

CAA provides educational services, including instructional materials, personalized learning plans for each student, assessments, standardized tests, administrative staff, community coordinators and group activities, teaching staff, educational resource center, instructional staff support and development, learning management system, software, hardware, and internet access, technical support and maintenance, student records, and services to special needs students. CAA also provides administrative services, including reporting, and management services.

## NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

CAA could receive compensation equal to substantially all revenues of the School. Such compensation is based on 1) curriculum costs as established in the budget multiplied by the number of enrolled students; plus 2) operational costs as established in the budget multiplied by the number of enrolled students over the operating months; plus 3) reimbursement for actual costs for standardized tests, administrative staff, community coordinators and group activities, teaching staff, instructional staff support and development, student records, and services to special needs students, and administrative services; plus 4) any special education costs in excess of special education funding; plus 5) 15% of all revenue received; plus 6) all revenue over and above state aid amounts, excluding federal or state grants or other charitable contributions or public school tax credit funds.

The School's revenues for the year ended June 30, 2012 were $10,355,469. Amounts either paid or payable to CAA totaled $9,320,028. The School's revenues for the year ended June 30, 2011 were $9,044,757. Amounts either paid or payable to CA were $9,167,331. Annual commitments to CAA through June 30, 2015 could approximate substantially all of the School's revenues.

Litigation - The School is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the School's management and legal counsel, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. No provision has been made in the financial statements for possible losses of this nature.

Compliance - The School's compliance with certain laws and regulations is subject to review by its Sponsor. Although such reviews could result in a reduction of state equalization assistance, any required reductions are not expected to be significant.

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