

LA TIERRA COMMUNITY SCHOOL, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

YEAR ENDED JUNE 30, 2023

LA TIERRA COMMUNITY SCHOOL, INC.
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Independent Auditor's Report

The Board of Directors
La Tierra Community School, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of La Tierra Community School, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of La Tierra Community School, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of La Tierra Community School, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about La Tierra Community School, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery,

intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 La Tierra Community School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about La Tierra Community School, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2023, on our consideration of La Tierra Community School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of La Tierra Community School, Inc.'s 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 La Tierra Community School, Inc.'s internal control over financial reporting and compliance.



Brett V. Backlund, CPA, PC
Gilbert, Arizona
October 31, 2023

LA TIERRA COMMUNITY SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

	2023
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 505,277
Due from governmental agencies	51,879
Total Current Assets	557,156
Non-Current Assets:	
Security deposits	2,000
Property and equipment, net	27,080
Operating lease right-of-use asset	614,648
Total Non-Current Assets	643,728
TOTAL ASSETS	\$ 1,200,884
 LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 1,483
Accrued payroll and related benefits	2,219
Refundable deposits	215
Operating lease liability, current portion	110,267
Total Current Liabilities	114,184
Long-Term Liabilities:	
Operating lease liability, less current portion	504,381
Total Long-Term Liabilities	504,381
TOTAL LIABILITIES	618,565
 NET ASSETS	
Without Donor Restrictions:	
Undesignated	459,707
Designated for building fund	6,916
With Donor Restrictions:	
Extracurricular activities fees tax credit	17,689
Classroom Site Fund	78,645
Instructional Improvement Fund	10,583
Other local grants	8,779
TOTAL NET ASSETS	582,319
 TOTAL LIABILITIES AND NET ASSETS	\$ 1,200,884

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

LA TIERRA COMMUNITY SCHOOL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	2023
NET ASSETS WITHOUT DONOR RESTRICTIONS	
Revenue, Support, and Gains:	
Local sources	\$ 51,255
State sources	1,181,644
Federal sources	252,405
Total Revenue, Support, and Gains	1,485,304
Net Assets Released from Restrictions:	
Satisfaction of program restrictions	93,455
Total Revenue, Support, Gains, and Other Support	1,578,759
Expenses and Losses:	
Personal services - salaries	728,187
Personal services - employee benefits	191,757
Purchased professional and technical services	160,738
Purchased property services	153,056
Other purchased services	21,498
Supplies	89,513
Depreciation and amortization	2,331
Other expenses and losses	18,270
Total Expenses and Losses	1,365,350
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	213,409
NET ASSETS WITH DONOR RESTRICTIONS	
Contributions with Donor Restrictions:	
Local sources	10,502
State sources	129,545
Total Contributions with Donor Restrictions	140,047
Net Assets Released from Restrictions:	
Local sources	(8,350)
State sources	(85,105)
Total Net Assets Release from Restrictions	(93,455)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	46,592
CHANGES IN NET ASSETS	260,001
NET ASSETS, BEGINNING OF YEAR	322,318
NET ASSETS, ENDING OF YEAR	\$ 582,319

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

LA TIERRA COMMUNITY SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Charter School	Management and General	Total Expenses
Compensation to employees	\$ 641,003	\$ 87,184	\$ 728,187
Retirement plan contributions	11,135	1,514	12,649
Employee benefit programs	99,646	13,549	113,195
Federal, state, and local payroll taxes	58,023	7,890	65,913
Legal fees	-	8,904	8,904
Accounting and auditing fees	-	29,629	29,629
Professional education services	111,194	11,010	122,204
Advertising and promotion	-	4,990	4,990
Classroom, office, and other supplies	53,653	17,012	70,665
Telephone and internet	-	3,331	3,331
Postage and delivery	-	182	182
Dues and fees	1,377	13,502	14,879
Information technology	7,285	-	7,285
Lease costs	101,675	26,314	127,989
Utilities	15,178	3,794	18,972
Property taxes	-	611	611
Repairs and maintenance	13,901	3,475	17,376
Other occupancy-related expenses	282	-	282
Travel, transportation, and meals and lodging	3,047	-	3,047
Depreciation, depletion, and amortization	1,865	466	2,331
Insurance	7,958	1,989	9,947
Miscellaneous other expenses	-	2,782	2,782
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Total Expenses and Losses	<u>\$ 1,127,222</u>	<u>\$ 238,128</u>	<u>\$ 1,365,350</u>

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

LA TIERRA COMMUNITY SCHOOL, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

	2023
CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 260,001
Adjustments to reconcile changes in net assets to net cash from/(used in) operating activities:	
Depreciation and amortization	2,331
(Increase)/decrease in operating assets:	
Due from governmental agencies	31,670
Prepaid expenses	5,535
Increase/(decrease) in operating liabilities:	
Accounts payable and accrued expenses	(5,467)
Accrued payroll and related benefits	2,219
Refundable deposits	215
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	296,504
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(22,789)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	(22,789)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on notes and loans payable	(1,997)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	(1,997)
NET CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	271,718
BEGINNING CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	233,559
ENDING CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	\$ 505,277

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

La Tierra Community School, Inc. (School) is a nonprofit organization located in Prescott, Arizona, incorporated pursuant to the laws of the State of Arizona on July 24, 2009 with the purpose of providing an active, transformative educational experience with respect for diversity, academic rigor, and a commitment to social environmental justice. The School operates under a charter contract with the Arizona State Board for Charter Schools (Sponsor), which mandates policy and operational guidelines. Our program uses the natural and cultural resources of the Southwest to foster local, relevant connections for children through learning expeditions. We value children’s sense of curiosity and discovery as well as their ability to think critically, reflect upon their world and promote positive change in their community. The School provides educational services to approximately 120 students in kindergarten through eighth grade, and is funded primarily through the state of Arizona based on student membership.

Significant Accounting Policies

The School prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations. The significant accounting and reporting policies used by the School are described below to enhance the usefulness and understandability of the financial statements.

Cash, Cash Equivalents, and Restricted Cash – The School considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the sum of the corresponding amounts within the statement of cash flows:

	2023
Cash, Cash Equivalents, and Restricted Cash	
Cash and cash equivalents	\$ 389,581
Restricted cash:	
Extracurricular activities fees tax credit	17,689
Classroom site fund	78,645
Instructional improvement fund	10,583
Other local grants	8,779
Total Cash, Cash Equivalents, and Restricted Cash	\$ 505,277

Gifts-in-Kind Contributions – The School periodically receives contributions in a form other than cash or investments. If the School receives a contribution of property and equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the School’s capitalization policy. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed. No amounts have been reflected in the financials statements for gifts-in-kind contributions.

The School may benefit from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the School’s program operations. However, the majority of the contributed services do not meet the criteria for recognition in the financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance non-financial assets, or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. No amounts have been reflected in the financial statements for donated services since they do not meet the criteria for recognition.

Revenue and Revenue Recognition – The School receives revenues from three separate sources: (1) local; (2) state; and (3) federal. Revenues from local sources consists primarily of contributions and donations (both with and without donor-imposed restrictions); school-sponsored activities; fundraising; before and after school care; and other miscellaneous revenue items. Revenues from state sources consists of state equalization assistance; Proposition 123 funding; classroom site projects; instructional improvement project; and other state projects. Revenue from federal sources consists of federal projects.

The School recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

State equalization assistance are payments from the State of Arizona driven by student enrollment under the provisions in the Arizona Revised Statutes. The equalization formula is the mechanism used to calculate funding, which is at the school level. Equalization assistance is allocated on a fiscal year basis that begins on July 1st and ends on June 30th and is paid on a prorated basis throughout the school year. The School recognizes revenue as it provides education to its students throughout the academic school year. Revenue that is collected in advance is recorded as deferred revenue on the statement of financial position.

Proposition 123 funding, classroom site projects, and instructional improvement project each originated from voter approved propositions used to increase school funding. Proposition 123 funding through an increase in the distributions from the State Land Trust; classroom site projects through sales taxes; and instructional improvement project through sharing Indian gaming revenue. This funding is generally received through periodic payments from the Arizona Department of Education (ADE) and is based on student enrollment. The School recognizes revenue as it provides education to its students throughout the academic school year. No amounts are received in advance from the ADE.

LA TIERRA COMMUNITY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

State and federal projects are primarily cost-reimbursable state and federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the School has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Grant Revenue – Grant revenue from federal agencies is subject to independent audit under the Uniform Guidance and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the School's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the School.

Property and Equipment – Land, buildings, and improvements with both a cost of \$2,000 or more and vehicles, furniture, and equipment with both a cost of \$2,000 or more and an estimated useful life of one year or more are capitalized. Assets are stated at cost. Assets donated are recorded at their estimated fair market value as of the date received. Repairs and maintenance that does not significantly increase the useful life of the asset are expensed as incurred. Amortization of buildings and improvements and depreciation of furniture and equipment are provided on a straight-line basis over the useful life of the respective assets, which ranges from 2 to 40 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities.

The School reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. No impairment losses were recognized in the financial statements during the current period.

Net Assets – The financial statements can report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors (or certain grantors), as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets with Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses are reported as decreases in net assets without donor restrictions.

LA TIERRA COMMUNITY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Accounting for Contributions – Contributions are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed asset is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions, consistent with the nature of the restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, the School reports that support as increases in net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Advertising Costs – All costs associated with advertising and promotion are expensed in the period incurred. For the year ended June 30, 2023, advertising costs consisted of \$4,990.

Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the School’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The School’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Tax Status – The School is incorporated exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and state income taxation under Arizona Revised Statute (A.R.S.) §43-1201, though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the Code or A.R.S.). Contributions to the School are tax deductible to donors under section 170(b)(1)(A) of the Code. The School is not classified as a private foundation under section 509(a)(2). The School’s Form 990, *Return of Organization Exempt from Income Tax*, is generally subject to examination by the Internal Revenue Service for three years after the date filed. As of June 30, 2023, the returns for 2022, 2021, 2020, and 2019 remain subject to examination. Lastly, the School has not taken any uncertain tax positions, and, therefore, has no policy for evaluating them.

Expense Recognition and Allocation – The cost of providing the School’s programs and other activities is summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service.

Costs common to multiple functions have been allocated among the various functions benefited. The expenses that are allocated include the following:

Expense	Method of Allocation
Grants	Time and Effort
Salaries and benefits	Time and Effort
Occupancy	Square Footage
Interest	Square Footage
Depreciation and amortization	Square Footage
Insurance	Square Footage

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the School.

LA TIERRA COMMUNITY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The School generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising.

Subsequent Events – The School has reviewed all subsequent events through October 31, 2023, which was the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

New Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements, and makes conforming amendments to other FASB ASC topics. The School has elected the package of practical expedients permitted in the ASU. Accordingly, the School was not required to reassess (1) whether expired or existing contracts contain a lease under ASU No. 2016-02; (2) whether classification of the expired or existing leases would be different in accordance with ASU No. 2016-02; or (3) initial direct costs before transition adjustments would have met the definition of initial direct costs in ASU No. 2016-02 at the lease commencement. The School adopted the standard on July 1, 2022.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash in Bank – The School maintains all of its cash with one financial institution. The carrying amount of deposits and bank balances consisted of the following as of the year ended June 30:

	<u>2023</u>
Carrying amount of deposits	\$ 505,277
Bank balances:	
Federal Deposit Insurance Corporation insured	\$ 250,000
Uninsured and uncollateralized	264,949
Total bank balances	<u>\$ 514,949</u>

Restricted Cash – The School receives cash contributions from individuals and others for eligible activities, programs or purposes, which require the School to maintain detailed accounting records to ensure that Extracurricular Activities Fees Tax Credit (ETC) monies are used only for allowable expenditures and in support of both the school and purpose designated by the taxpayer. Eligible activities or programs include (1) extracurricular activities; (2) character education; (3) standardized testing and fees; (4) career and technical education assessment; (5) cardiopulmonary resuscitation training; (6) capital items; (7) community school meal programs; (8) student consumable healthcare supplies; and (9) playground equipment and shade structures for playground equipment. As of the year ended June 30, 2023, restricted cash related to ETC consisted of \$17,689.

LA TIERRA COMMUNITY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Classroom Site Fund (CSF) monies are administered by the Arizona Department of Education (ADE), are non-reverting, and provide funding to schools for designated purposes. CSF monies are allocated based on student count and other factors specified by statute. CSF monies are restricted solely for use at school sites for class size reduction; teacher compensation (including a base pay and performance pay component); assessment intervention programs; teacher development; dropout prevention programs; teacher liability insurance premiums; and student support services. As of the year ended June 30, 2023, restricted cash related to the CSF consisted of \$78,645.

Instructional Improvement Fund accounts for monies received from gaming revenue in accordance with A.R.S. §15-979. Up to 50% of these monies may be used for teacher compensation increases and class size reduction as provided in A.R.S. §15-977. The remaining monies must be used for the following maintenance and operation purposes: dropout prevention programs and instructional improvement programs including programs to develop minimum reading skills for students by the end of third grade. As of the year ended June 30, 2023, restricted cash related to the Instructional Improvement Fund consisted of \$10,583.

NOTE 3 – AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, consisted of the following for the year ended June 30:

	<u>2023</u>
Financial statements at year end:	
Cash and cash equivalents	\$ 505,277
Due from governmental agencies	<u>51,879</u>
Total financial assets	<u>557,156</u>
Less amounts not available to be used within one year:	
Restricted cash:	
Extracurricular Activities Fees Tax Credit	(17,689)
Classroom Site Fund	(78,645)
Instructional Improvement Fund	(10,583)
Other local grants	<u>(8,779)</u>
Total amounts not available to be used within one year	<u>(115,696)</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 441,460</u>

The School's goal is generally to maintain financial assets to meet 60 to 90 days of operating expenses, which is approximately \$225,000 to \$340,000. In addition, the School operates annually on a balanced budget and expects to cover general expenditures by collecting revenues from local, state, and federal sources; and by utilizing donor-restricted resources from current and prior years.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of the year ended June 30:

	2023
Property and equipment:	
Leasehold improvements	\$ 25,462
Equipment	83,253
Total property and equipment	108,715
Accumulated depreciation and amortization	(81,635)
Property and equipment, net	\$ 27,080

For the year ended June 30, 2023, depreciation and amortization expense consisted of \$2,331.

NOTE 5 - LEASES

The School determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities on the statement of financial position. The lease payments used to determine the ROU assets and the lease liability reflect the present value of the future minimum lease payments over the lease term, which include renewal options when the options are reasonably certain to be exercised, and, if applicable, include prepaid or accrued rent and residual value guarantees the School are probable of paying at the termination of the lease term. In addition, certain lease agreements may require the School to comply with certain covenants and to maintain certain financial ratios. If such requirements exist, the School was in compliance with all ratios and covenants as of June 30, 2023. Operating lease expense is recognized on a straight-line basis over the lease term. In addition, operating leases may provide for increases in future minimum annual rental payments and may require payment of real estate taxes, insurance, and repairs.

The School elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases and to not recognize the asset and liability for these leases. Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Recently Adopted Accounting Standards – During the year ended June 30, 2023, the School adopted FASB ASU No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The School elected not to reassess at adoption (1) expired or existing contracts to determine whether they are or contain a lease; (2) the lease classification of any existing leases; or (3) initial direct costs for existing leases. As a result of implementing FASB ASU No. 2016-02, the School recognized ROU assets consisting of \$720,265 and lease liabilities totaling \$720,265 in its statement of financial position as of July 1, 2022. The adoption did not result in an effect on amounts reported in the statement of activities for the year ended June 30, 2023.

LA TIERRA COMMUNITY SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Operating Leases – The School leases certain facilities and equipment at various terms under long-term non-cancelable operating lease agreements. The leases expire at various dates through June 30, 2028 and provide for renewal options including five one-year extensions. Included in the determination of the right-of-use assets and lease liabilities are any renewal options when the options are reasonably certain to be exercised. The School's operating lease provides for increases in future minimum annual rental payments. The weighted-average discount rate is based on the discount rate implicit in the lease when readily determinable. The School elected the option to use the risk-free rate consisting of 2.90% determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The School has applied the risk-free rate option to the facilities and equipment classes of assets.

The School elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. For the year ended June 30, 2023, total short-term lease costs consisted of \$4,480. The School elected the practical expedient to not separate lease and non-lease components for our facilities and equipment leases.

For the year ended June 30, 2023, supplemental cash flow information consisted of the following:

	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 123,509

The weighted-average remaining lease term and weighted-average discount rate for operating leases consisted of the following as of the year ended June 30, 2023:

	<u>2023</u>
Weighted-average remaining lease term in years:	
Operating leases	6
Weighted-average discount rate:	
Operating leases	2.90%

The future minimum lease payments under non-cancelable operating leases with terms greater than one year consisted of the following as of the year ended June 30, 2023:

Fiscal year ending June 30:	<u>Operating</u>
2024	\$ 126,780
2025	128,546
2026	131,182
2027	135,773
2028	140,525
Total future minimum lease payments	662,806
Less interest	(48,158)
Present value of lease liabilities	<u>\$ 614,648</u>

NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES

Litigation – The School is contingently liable for claims, either asserted or unasserted, and judgments resulting from lawsuits incidental to the normal operation of a school. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these matters will have a material adverse effect on the School’s financial position, results of operations, or liquidity. Accordingly, no provision for possible losses is reflected in the financial statements.

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.

NOTE 7 - CONCENTRATIONS OF RISK

Amounts held in financial institutions can occasionally be in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The School deposits its cash with high quality financial institutions, and management believes the School is not exposed to significant credit risk on those amounts.

A significant portion of the School’s annual funding comes from agencies of the federal and state governments, including primarily the Arizona Department of Education. As such, the School’s ability to generate resources via contributions and grants is dependent upon the economic health of the federal government and the state of Arizona. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for the School’s services. In addition, if the state of Arizona and its agencies significantly reduced the level of support provided to the School it would have a material effect on the School’s operations. The School’s management is aware of the concentration and its potential impact on its programs, and would take appropriate action if any reduction did occur.

NOTE 8 – EMPLOYEE BENEFIT PLANS

During the year ended June 30, 2022, the School established an Equitable Financial Life Insurance Company 403(b) Volume Submitter Plan called the La Tierra Community School 403(b) Plan (Plan). All employees of the School are eligible to participate in the Plan. Participants in the Plan are eligible to contribute amounts up to the maximum allowed by law on an annual basis. In addition, the School is authorized to make matching contributions under the Plan for each participant working more than 20 hours per week equal to 100% of eligible contributions made for each period. The matching contributions are limited to 3.0% of the employee’s compensation and are subject to a 3-year cliff vesting schedule. Contributions to the employees accounts in the Plan consisted of \$12,649 for the year ended June 30, 2023.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of the year ended June 30:

	2023
Subject to expenditure for specified purpose:	
Extracurricular activities fees tax credit	\$ 17,689
Classroom site fund	78,645
Instructional improvement fund	10,583
Other local grants	8,779
Total subject to expenditures for specified purpose	<u>115,696</u>
Total net assets with donor restrictions	<u>\$ 115,696</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30:

	2023
Satisfaction of purpose restrictions:	
Extracurricular activities fees tax credit	\$ 2,129
Other local grants	6,221
Classroom site fund	83,398
Instructional improvement fund	1,707
Total satisfaction of purpose restrictions	<u>93,455</u>
Total net assets released from restrictions	<u>\$ 93,455</u>



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**Independent Auditor's 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
La Tierra Community School, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of La Tierra Community School, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered La Tierra Community School, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 La Tierra Community School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Tierra Community School, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Board of Directors
La Tierra Community School, Inc.
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Tierra Community School, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Brett V. Backlund, CPA, PC". The signature is written in a cursive style.

Brett V. Backlund, CPA, PC
Gilbert, Arizona
October 31, 2023

LA TIERRA COMMUNITY SCHOOL, INC.
STATUS OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2023

We have reviewed the School's prior year schedule of findings and responses contained in the prior year audit report dated October 24, 2022. The School did not have any deficiencies in internal control over financial reporting or instances of noncompliance or other matters, therefore, no corrective action was necessary.