

**PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL**

**Financial Statements
With
Independent Auditors' Reports**

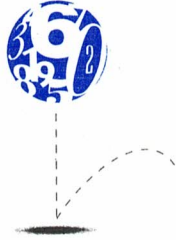
June 30, 2021

**Ball & McGraw, PC
Certified Public Accountants
Phoenix, Arizona**

**PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL**

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June 30, 2021**

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Ball & McGraw, P.C.
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Independent Auditors' Report

Board of Directors
Phoenix Education Management, LLC
DBA SABIS International School
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Phoenix Education Management, LLC DBA SABIS International School as of June 30, 2021, which comprise the balance sheet as of June 30, 2021 and the related statements of operations and member's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Education Management, LLC DBA SABIS International School as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021 on our consideration of Phoenix Education Management, LLC DBA SABIS International 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering Phoenix Education Management, LLC DBA SABIS International School's internal control over financial reporting and compliance.

Ball: McGraw, P. C.

November 15, 2021

**PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL**

**Balance Sheet
June 30, 2021**

ASSETS

| | |
|------------------------|--------------------------|
| Current Assets | |
| Cash | \$ 349,815 |
| Accounts receivable | 23,056 |
| Deposit | <u>50,000</u> |
| Total current assets | 422,871 |
| | |
| Property and equipment | <u>111,034</u> |
| | |
| Total Assets | <u><u>\$ 533,905</u></u> |

LIABILITIES AND MEMBER'S EQUITY

| | |
|---------------------------------------|--------------------------|
| Current Liabilities | |
| Accounts payable | \$ 31,536 |
| Accrued expenses | 16,860 |
| Due to related party (note 5) | <u>366,742</u> |
| Total current liabilities | 415,138 |
| | |
| Commitments (notes 5, 8) | |
| | |
| Member' Equity | <u>118,767</u> |
| | |
| Total Liabilities and Member's Equity | <u><u>\$ 533,905</u></u> |

See accompanying Notes to Financial Statements

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Statement of Operations and Member's Equity
Year Ended June 30, 2021

Revenues

| | |
|--------------------------------|-------------------|
| State equalization funds | \$ 3,804,021 |
| Classroom Site Fund (Prop 301) | 267,368 |
| Instructional Improvement Fund | 21,063 |
| Enrollment Stabilization Grant | 242,359 |
| NSLP | 273,612 |
| Related party debt forgiveness | 27,583,236 |
| Other income | <u>92,430</u> |
| Total Revenues | <u>32,284,089</u> |

Expenses

| | |
|---------------------------------|------------------|
| Salaries and benefits | 2,785,323 |
| General administrative expenses | 191,452 |
| School operating expenses | 596,819 |
| School maintenance expenses | 203,919 |
| General operating expenses | 594,728 |
| Depreciation expense | 21,985 |
| Special education expenses | 415,379 |
| Food service costs | 235,094 |
| Purchased services | 531,482 |
| Building lease | <u>1,022,222</u> |
| Total Expenses | <u>6,598,402</u> |

| | |
|---------------------------------------|--------------------------|
| Net Income | 25,685,687 |
| Member's (deficit), beginning of year | <u>(25,566,920)</u> |
| Member's equity, end of year | <u><u>\$ 118,767</u></u> |

See accompanying Notes to Financial Statements

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Statement of Cash Flows
Year Ended June 30, 2021

Cash Flows from Operating Activities

| | |
|--|--------------------------|
| Net Income | \$ 25,685,686 |
| Adjustments to reconcile to net cash provided by operating activities: | |
| Depreciation expense | 21,985 |
| Decrease (increase) in assets: | |
| Accounts receivable | 70,942 |
| Prepaid expenses | 25,333 |
| Increase (decrease) in liabilities: | |
| Accounts payable | (54,118) |
| Accrued expenses | (221,175) |
| Due to related party - SABIS | <u>(25,740,340)</u> |
| Net cash used by operating activities | <u>(211,687)</u> |
| | |
| Net decrease in cash and cash equivalents | (211,687) |
| Cash, beginning of year | <u>561,502</u> |
| Cash, end of year | <u><u>\$ 349,815</u></u> |
| | |
| Supplemental information: | |
| Income taxes paid | \$ - |
| Interest paid | \$ - |
| | |
| Non-Cash Transactions: | |
| Related party debt forgiveness | \$ 27,583,236 |

See accompanying Notes to Financial Statements

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 1 – School Purpose and Summary of Significant Accounting Policies

School Purpose

Phoenix Education Management, LLC DBA SABIS International School (“School”) is a Delaware Limited Liability Company organized in December 2000 and began operations in September 2001. The School is owned by one member, SABIS Educational Systems, Inc. (SABIS). The School’s purpose is to provide a quality, college preparatory education to children of different races, nationalities and backgrounds in grades kindergarten through 8th grade. The School operates as a charter school in Phoenix, Arizona under a contract dated July 2, 2001 with the Arizona State Board for Charter Schools. The contract was renewed on June 15, 2015 for an additional twenty years ending June 30, 2035 and may be renewed for successive twenty-year time periods.

See note 14 for disclosures related to a change in ownership.

The significant accounting policies followed by the School are as follows:

Basis of Presentation

The financial statements use the accrual method of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenue Recognition

State equalization assistance consists of payments from the state of Arizona on a per student basis under the provisions in the Arizona Revised Statutes. Funding is allocated on a fiscal year basis that begins July 1st and ends June 30th. Payments are made on a prorated basis throughout the school year and recognized when earned.

Proposition 123 funding, classroom site funding and instructional improvement project each originated from voter approved propositions used to increase school funding. Funding is received periodically throughout the school year from the Arizona Department of Education (ADE) and is based on student enrollments. Revenue is recognized when earned.

The School’s process for recognizing revenue from contracts with customers is as follows: 1) identify the contract with the customer; 2) identify the performance obligations; 3) determine the transaction price; 4) allocate the transaction price; 5) allocate the transaction price to the performance obligations; and 6) recognize revenue when or as the performance obligation has been satisfied. For the year ended June 30, 2021, the School did not identify any contracts with customers as a source of revenue. Costs of obtaining new contracts are expensed as incurred.

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 1 – School Purpose and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The School considers all bank accounts and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of two checking and one savings account.

Property and Equipment

Leasehold improvements, furniture and equipment are recorded at cost. Furniture and equipment costing \$5,000 or more are depreciated over the estimated useful lives of three to ten years using the straight-line method. Leasehold improvements costing \$5,000 or more are amortized over the shorter of their estimated useful life or term of the related leases.

Maintenance and repairs are charged to expense as incurred. The costs and accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss is recognized in the year of disposal.

Long-lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Certain long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell. During the year ended June 30, 2021, no impairment of long-lived assets was recognized.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2021 was \$11,714.

Income Taxes

The School is organized as a single member limited liability company. Under those provisions, the School does not pay federal or state income taxes on its income. Instead, the single member reports the School's income or loss on its tax returns. Therefore, these financial statements do not include any provision for income taxes.

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 1 – School Purpose and Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 15, 2021, the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2021 through November 15, 2021 that would require adjustment or disclosure in the financial statements except as disclosed in note 14 – change in ownership.

Note 2 – Property and Equipment

Property and equipment consist of the following at June 30, 2021:

| | | |
|--------------------------|-------------------|--------------|
| | | <u>Life</u> |
| Leasehold improvements | \$ 134,845 | 2 - 10 years |
| Furniture and fixtures | 18,125 | 7 years |
| Equipment | 29,558 | 3 - 7 years |
| Accumulated depreciation | <u>(71,494)</u> | |
| | <u>\$ 111,034</u> | |

Note 3 – Concentrations of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit risk consist of cash deposits in banks and accounts receivable. The School places its cash deposits with financial institutions which carry Federal Deposit Insurance Corporation (FDIC) coverage on all monies under \$250,000. Cash deposits may exceed insured limits from time to time. The School has not experienced any losses on its cash deposits.

Accounts receivable of \$23,056, at June 30, 2021 and \$94,032 at June 30, 2020, were from the State of Arizona for Equalization funding, Classroom Site Funds and other state funding. The funds were received subsequent to year-end, thus, no allowance account was recorded on these receivables.

Note 4 – Line of Credit

The School entered into a line of credit agreement with SABIS, a related party (see note 5) on April 1, 2015 and amended May 1, 2015 for \$600,000. At June 30, 2021 the outstanding balance on the line of credit was \$0 and the agreement was terminated. See note 14 for change of ownership disclosures.

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 5 – Economic Dependency

Approximately 94.74% of the School's operating revenue for year ended June 30, 2021 was derived from State of Arizona Equalization, Classroom Site Fund (Prop 301) and various other Arizona state government funding. Collection from the state government is reasonably assured provided that the School has complied with the terms stipulated in its contract with the Arizona State Board for Charter Schools and grant funding requirements. Changes in state funding levels for charter schools could have a significant impact on the School's ability to operate.

The School relied financially on SABIS Educational Systems, Inc. (SABIS), a related party (see note 5). The School has incurred substantial operating losses and owed SABIS \$27,949,977 at June 30, 2021, the date of the change in ownership (see note 14), for building rent, management services and other activities. On June 30, 2021, SABIS forgave \$27,595,638 of the outstanding balance leaving a \$366,741 balance due at June 30, 2021.

Note 6 – Related Party Transactions

The School had agreements and transacted business with SABIS, a related party due to 100% ownership, until June 30, 2021 and Phoenix Property Management, LLC (a single member LLC owned by SABIS). A description of the agreements and transactions follows. All agreements terminated on June 30, 2021 due to the change in ownership. See note 14.

The School had a management agreement with SABIS whereby SABIS provided certain management services for a fee. The fee is equal to 6% of the annual Arizona state equalization funding received. The fee for the year ended June 30, 2021 was \$227,778.

The School had an agreement for the use of SABIS proprietary information and systems for a fee. The agreement which was amended on September 15, 2015 is for 8% of the annual Arizona state equalization funding received. The fee for the year ended June 30, 2021 was \$303,704.

During the year ended June 30, 2021 the School's transactions with SABIS for books, supplies, advances, management and curriculum services totaled \$833,200. The School also incurred rent expense of \$1,022,222 to Phoenix Property Management, LLC, which is wholly owned by SABIS. At June 30, 2021, SABIS forgave \$27,583,236 of the total \$27,949,978 of the outstanding balance.. A summary of the transactions with these related parties for the year ended June 30, 2021 is as follows:

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 6 – Related Party Transactions (continued)

| | |
|---|----------------------|
| Balance due to related party - SABIS, June 30, 2020 | \$ <u>26,107,082</u> |
| Increases: | |
| Management fees | 227,778 |
| Proprietary information fee | 303,704 |
| Book purchases | 180,651 |
| Other transactions | 71,087 |
| Advances | 50,000 |
| Building lease | <u>1,022,222</u> |
| Total increases | <u>1,855,442</u> |
| Decreases: | |
| Payments on account | (12,547) |
| Related party expense forgiveness | <u>(27,583,236)</u> |
| Total decreases | <u>(27,612,708)</u> |
| Balance due to related party - SABIS, June 30, 2021 | \$ <u>366,742</u> |

See note 14 for change in ownership disclosures.

Note 7 - Pension Plan

Effective September 2001, the School adopted a 401(k) savings plan. Employees who have reached the age of 21 and completed one year of eligible service, which is 1,000 hours during the first 12 months of employment are eligible to contribute. The School makes a matching contribution of 20% of employee contributions up to 6% of the employee's total compensation. Vesting starts at 20% after two years of service and reaches 100% after six years of service. School matching contributions for the year ended June 30, 2021 were \$13,839.

Note 8 – Student Clubs and Activities

Students participated in several clubs during the year. The revenue from the student club activities is earmarked to support several clubs and student life activities. These transactions are recorded on the balance sheet with any unspent monies shown as liabilities at year end. For the year ended June 30, 2021 there are no unspent funds.:

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 9 – Commitments and Contingent Liabilities

The School leased facilities under a non-cancelable operating lease dated September 20, 2002 with Phoenix Property Management, LLC, a related party by virtue of common ownership. The lease was terminated May 21, 2021 due to the sale of the building. Lease expense for the year ended June 30, 2021 is \$1,022,222.

The School has a copier lease dated March 24, 2017 with a 5 year and 3-month term. Lease expense for the year ended June 30, 2021 is \$24,389. This non-cancelable lease is categorized as an operating lease.

Future minimum lease payments on these leases at June 30, 2021 are:

| | |
|----------------|------------------|
| Year ended | |
| <u>June 30</u> | |
| 2022 | \$ 25,692 |
| Thereafter | <u>-</u> |
| Total | <u>\$ 25,692</u> |

Note 10 – Classroom Site Funds (Prop 301)

Classroom Site Funds (Prop 301) are paid to the School on a per pupil basis. Use of the funds is restricted as described in ARS 15-977. Unspent funds are carried over to the next year in their applicable category.

At June 30, 2021 the Prop 301 carryover is as follows:

| | |
|--------------|------------------|
| Account 1011 | \$ 2,404 |
| Account 1012 | 38,098 |
| Account 1013 | <u>-</u> |
| Total | <u>\$ 40,502</u> |

At June 30, 2021 the School had unrestricted cash of \$349,815 to cover the carryover.

Note 11 – Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 11 – Fair Value of Financial Instruments (continued)

Accounts Receivable, Accounts Payable and Due to Related Party. The carrying amount of accounts receivable, accounts payable and due to related party in the balance sheet approximates fair value.

Note 12 – Operational Uncertainties

Business and operations could be adversely impacted by health epidemics including the recent viral outbreak. In March 2020, the World Health Organization declared a viral pandemic. In addition, several states in the U.S., including Arizona, where we are headquartered, have declared states of emergency as a result of this pandemic.

Potential impacts to our business include, but are not limited to:

- Disruption or restriction of our employees' ability to work.
- A need to redirect specific resources toward the viral outbreak.
- Travel restrictions imposed by governments, resulting in the inability to access our facility could impact our workflow.
- Certain suppliers of materials used in our business are located in areas impacted by the virus. This could limit our ability to obtain sufficient materials for daily operations.
- The pandemic could adversely affect the economies and financial markets of many countries; resulting in an economic downturn which could affect demand for certain resources and impact upon our operations.

Any of the foregoing could harm our business. At this time, we cannot anticipate all of the ways in which health epidemics could adversely impact our business. Although we are continuing to monitor and assess the effects of the viral pandemic on our business, the ultimate impact of this viral outbreak or a similar health epidemic is highly uncertain and subject to change on a daily basis.

Note 13 – Recent Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, Leases. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations and net assets. This ASU will be effective for the School for the year ending June 30, 2022. The School is currently evaluating the effect that the provisions of ASU 2016-02 will have on the financial statements.

PHOENIX EDUCATION MANAGEMENT, LLC
DBA SABIS INTERNATIONAL SCHOOL
Notes to Financial Statements
June 30, 2021

Note 14 – Subsequent Event - Change in Ownership

On May 21, 2021, SABIS entered into an agreement to sell its membership interest in Phoenix Education Management, LLC (PEM), to Pioneer Technology and Arts Academy of Arizona (PTAA), an Arizona nonprofit corporation. The transfer date of the agreement is June 30, 2021. As a result of the sale of its ownership in PEM, all agreements between PEM and SABIS ended by mutual agreement. The agreements included management services, curriculum licensing fees, line of credit, and commitment to financially support the School.

PEM was a party to a building lease agreement with Phoenix Property Management, LLC, which is wholly owned by SABIS. On May 21, 2021, the lease was terminated by mutual agreement due to the sale of the building. PEM signed a new lease with SSS Education Inc., the new building owner, which terminated on June 30, 2021.

As a result of prior and current year operating losses, as of June 30, 2021, PEM owed SABIS \$27,949,977. On June 30, 2021 SABIS forgave \$27,583,236 of the outstanding balance leaving a balance in the Due to SABIS account of \$366,741.

The new ownership, PTAA received approval from the Arizona State Board for Charter Schools for a transfer of the charter contract described in note 1 to PTAA. PTAA intends to continue operating the charter school.



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**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***

Independent Auditors' Report

Board of Directors
Phoenix Education Management, LLC
DBA SABIS International School
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Phoenix Education Management, LLC DBA SABIS International School as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Phoenix Education Management, LLC DBA SABIS International School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Phoenix Education Management, LLC DBA SABIS International School's internal control. Accordingly, we do not express an opinion on the effectiveness of Phoenix Education Management, LLC DBA SABIS International 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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phoenix Education Management, LLC DBA SABIS International 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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Phoenix Education Management, LLC DBA SABIS International 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ball: McGraw P. C.

November 15, 2021