

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2018**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Los Angeles Academy of Arts and Enterprise
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles Academy of Arts and Enterprise (the "Charter") which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses 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 these financial statements in accordance with 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 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 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 control 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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Los Angeles Academy of Arts and Enterprise as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Los Angeles Academy of Arts and Enterprise's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Rewards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the Charter'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 the Charter'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 the Charter's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 14, 2018

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Current assets

| | |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 1,971,922 |
| Investments | 450,000 |
| Accounts receivable | 294,327 |
| Prepaid expenses | 19,582 |
| Deposits | 51,336 |
| Total current assets | <u>2,787,167</u> |

Capital assets

| | |
|-------------------------------|------------------|
| Property and equipment | 158,596 |
| Less accumulated depreciation | <u>(41,489)</u> |
| Capital assets, net | <u>117,107</u> |
| Total Assets | <u>2,904,274</u> |

LIABILITIES AND NET ASSETS

Liabilities

| | |
|-------------------|----------------|
| Accounts payable | 428,783 |
| Loans payable | <u>110,193</u> |
| Total liabilities | <u>538,976</u> |

Net assets

| | |
|---|---------------------|
| Unrestricted | <u>2,365,298</u> |
| Total net assets | <u>2,365,298</u> |
| Total Liabilities and Net Assets | <u>\$ 2,904,274</u> |

The notes to the financial statements are an integral part of this statement.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

SUPPORT AND REVENUES

| | |
|--|-------------------------|
| Federal and state support and revenues | |
| Local control funding formula, state aid | \$ 2,746,958 |
| Federal revenues | 756,471 |
| Other state revenues | 543,950 |
| Total federal and state support and revenues | <u>4,047,379</u> |
| Local support and revenues | |
| Payments in lieu of property taxes | 822,363 |
| Investment income, net | 751 |
| Other local revenues | 13,752 |
| Total local support and revenues | <u>836,866</u> |
| Total Support and Revenues | <u>4,884,245</u> |

EXPENSES

| | |
|------------------------|-------------------------|
| Program services | 4,294,193 |
| Supporting services | |
| Management and general | 425,528 |
| Total Expenses | <u>4,719,721</u> |

CHANGE IN NET ASSETS 164,524

Net Assets - Beginning 2,200,774

Net Assets - Ending \$ 2,365,298

The notes to the financial statements are an integral part of this statement.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

| EXPENSES | Program Services | Management and General | Total |
|----------------------------------|---------------------|---------------------------|---------------------|
| Personnel expenses | | | |
| Certificated salaries | \$ 1,566,241 | \$ 45,577 | \$ 1,611,818 |
| Classified salaries | 242,730 | 101,263 | 343,993 |
| Deferred compensation | 333,717 | - | 333,717 |
| Payroll taxes | 69,177 | 4,458 | 73,635 |
| Other employee benefits | 126,778 | 8,128 | 134,906 |
| Total personnel expenses | <u>2,338,643</u> | <u>159,426</u> | <u>2,498,069</u> |
| Non-personnel expenses | | | |
| Books and supplies | 580,370 | 3,023 | 583,393 |
| Insurance | 31,163 | 2,710 | 33,873 |
| Facilities | 259,743 | 20,027 | 279,770 |
| Professional services | 709,220 | 188,097 | 897,317 |
| Equipment | 31,902 | 807 | 32,709 |
| Depreciation | 13,911 | 1,210 | 15,121 |
| Interest expense | 155 | 12,423 | 12,578 |
| Payments to authorizing agency | 260,620 | 2,855 | 263,475 |
| Other operating expenses | 68,466 | 2,693 | 71,159 |
| Repayment of restricted revenues | - | 32,257 | 32,257 |
| Total non-personnel expenses | <u>1,955,550</u> | <u>266,102</u> | <u>2,221,652</u> |
| Total Expenses | <u>\$ 4,294,193</u> | <u>\$ 425,528</u> | <u>\$ 4,719,721</u> |

The notes to the financial statements are an integral part of this statement.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

| | |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 164,524 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | |
| Depreciation | 15,121 |
| (Increase) decrease in operating assets | |
| Accounts receivable | 213,826 |
| Prepaid expenses | (5,768) |
| Increase (decrease) in operating liabilities | |
| Accounts payable | <u>54,384</u> |
| Net cash provided by (used in) operating activities | <u>442,087</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Transfer to investment accounts | <u>(200,000)</u> |
| Net cash provided by (used in) investing activities | <u>(200,000)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Principal payments on loans payable | <u>(32,623)</u> |
| Net cash provided by (used in) financing activities | <u>(32,623)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 209,464 |
| Cash and cash equivalents - Beginning | <u>1,762,458</u> |
| Cash and cash equivalents - Ending | <u>\$ 1,971,922</u> |
| SUPPLEMENTAL DISCLOSURE | |
| Cash paid for interest | <u>\$ 12,578</u> |

The notes to the financial statements are an integral part of this statement.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Los Angeles Academy of Arts and Enterprise (the “Charter”) was formed as a nonprofit public benefit corporation on March 17, 2005, for the purpose of operating as a California public school located in Los Angeles County. The Charter was approved by the State Board of Education in March 30, 2005, as California Charter No. 0675.

During the year ended June 30, 2018, Los Angeles Academy of Arts and Enterprise served grades 6 to 12. Los Angeles Academy of Arts and Enterprise’s “mission is to prepare students for leadership in the arts and business, where creativity, academic knowledge and financial literacy are essential for success. We are developing a generation of diverse, educated, compassionate leaders in the arts and business by providing a dynamic, innovative education that integrates the four lenses of learning: Academics, Arts, Enterprise, and Personal Growth.”

Los Angeles Academy of Arts and Enterprise is authorized to operate as a charter school through Los Angeles Unified School District (the “authorizing agency” or the “District”). On March 10, 2015, the Board of Directors of Los Angeles Unified School District approved a charter renewal for the Charter for a 5 year term beginning July 1, 2015 and expiring on June 30, 2020. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

B. Basis of Accounting

The Charter’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

Los Angeles Academy of Arts and Enterprise is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management’s discretion in carrying out the activities of the organization in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support operations. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Charter’s financial statement presentation.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management's estimates.

F. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

G. In Lieu of Property Taxes Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the authorizing agency. In lieu of distributing funds out of property tax proceeds, the authorizing agency makes monthly payments to Los Angeles Academy of Arts and Enterprise. Revenues are recognized by the Charter when earned.

H. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

I. **Cash and Cash Equivalents**

Los Angeles Academy of Arts and Enterprise considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

J. **Investments**

The Charter's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities.

K. **Receivables and Allowances**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Charter establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2018, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

L. **Capital Assets**

Los Angeles Academy of Arts and Enterprise has adopted a policy to capitalize asset purchases over \$1,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or is requiring the Charter to hold the asset for a specified period of time. Capital assets are depreciated using the straight-line method.

M. **Income Taxes**

Los Angeles Academy of Arts and Enterprise is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Charter is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, the Charter is not required to register with the California Attorney General as a charity.

The Charter's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Charter's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

O. New Accounting Pronouncements

Not-for-Profit Financial Reporting Model Standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Charter has not yet determined the impact on the financial statements.

Revenue Recognition

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in FASB ASU No. 2014-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The new requirements are to be applied to fiscal years beginning after December 15, 2017. The Charter has not yet determined the impact on the financial statements.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New Accounting Pronouncements, continued

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of the 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. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and is effective for public business entities for fiscal years beginning after December 15, 2018. The Charter has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018, consist of the following:

| | |
|--|----------------------------|
| Cash in banks, non-interest bearing | \$ 1,971,922 |
| Total Cash and Cash Equivalents | <u>\$ 1,971,922</u> |

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. Los Angeles Academy of Arts and Enterprise does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2018, \$1,579,701 of Los Angeles Academy of Arts and Enterprise's bank balance was exposed to custodial credit risk as deposits were over \$250,000 in accounts held with two banks.

NOTE 3 – INVESTMENTS

The Charter's certificates of deposit are the only investments classified as investments in the statement of financial position and are carried at amortized cost. These investments do not qualify as securities as defined in FASB ASC 320, Investments – Debt and Equity Securities, thus the fair value disclosures required by ASC 820, Fair Value Measurements and Disclosures, are not provided. As of June 30, 2018, the carrying value of the certificates of deposit is \$450,000.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consists of the following:

| | | |
|---------------------------------------|-----------|----------------|
| Local control funding formula sources | \$ | 75,284 |
| Federal sources | | 114,473 |
| Other state sources | | 44,726 |
| Due from authorizing agency | | 58,230 |
| Other local sources | | 1,614 |
| Total Accounts Receivable | \$ | 294,327 |

NOTE 5 – OTHER CURRENT ASSETS

Prepaid Expenses

At June 30, 2018, prepaid expenses consisted of \$19,582 relating to insurance premiums for the 2017-18 school year.

Deposits

At June 30, 2018, deposits consisted of \$51,336 for a rent security deposit paid in November 21, 2008. The Charter is no longer renting the property and expects the deposit to be returned when litigation is complete.

NOTE 6 – CAPITAL ASSETS

During the fiscal year ended June 30, 2018, the depreciation expense recorded was \$15,121. A summary of capital asset activity during the fiscal year ended June 30, 2018 is as follows:

| | Balance | | Balance | |
|--------------------------------|-------------------|--------------------|-------------|-------------------|
| | July 1, 2017 | Additions | Disposals | June 30, 2018 |
| Computer and other equipment | \$ 158,596 | \$ - | \$ - | \$ 158,596 |
| Total at historical cost | 158,596 | - | - | 158,596 |
| Less: accumulated depreciation | 26,368 | 15,121 | - | 41,489 |
| Capital Assets, net | \$ 132,228 | \$ (15,121) | \$ - | \$ 117,107 |

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2018, consists of the following:

| | |
|-------------------------------|-------------------|
| Deferred summer compensation | \$ 60,845 |
| Compensated absences | 29,293 |
| Other payroll liabilities | 2,659 |
| Employee reimbursements | 15,907 |
| Due to authorizing agency | 3,807 |
| Credit card liabilities | 1,303 |
| Vendor payables | 314,969 |
| Total Accounts Payable | <u>\$ 428,783</u> |

NOTE 8 – LOANS PAYABLE

In January 2008, the Charter entered into a promissory note with Broadway Federal Bank in the amount of \$630,000 for general operations. On July 27, 2011, the Bank and Charter modified the agreement to operate with the following provisions:

- a) A revised principal balance set at \$300,000;
- b) Effective August 1, 2011, interest shall accrue on the revised principal at a monthly interest rate of 0.5% corresponding to a rate of 6.0%;
- c) Commencing September 1, 2011 and continuing on the first day of each consecutive month thereafter through and including September 1, 2014, the remaining payments of principal and interest are payable on the first day of each consecutive month until the maturity date of September 21, 2021.

In 2014-15, the Charter entered into a loan agreement with Pacific Western Bank to refinance the loan held with Broadway Federal Bank. The new loan bears interest at a rate of 5.50% with a maturity date of November 12, 2021.

During the fiscal year ended June 30, 2018, the Charter made \$32,623 in principal payments and \$8,906 in interest. The outstanding balance on the promissory note was \$110,193 at June 30, 2018. Future payment obligations on the promissory note are as follows:

| Fiscal Year Ended June 30, | Payment |
|----------------------------|-------------------|
| 2019 | 39,764 |
| 2020 | 39,764 |
| 2021 | 39,764 |
| 2022 | 9,941 |
| Future minimum payments | 129,233 |
| Less: interest | (19,040) |
| Total Loans Payable | <u>\$ 110,193</u> |

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with California Education Code 47605, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers’ Retirement System (CalSTRS), and non-certificated employees are covered by social security as an alternative plan.

California State Teachers’ Retirement System (CalSTRS)

Plan Description

Los Angeles Academy of Arts and Enterprise contributes to the California State Teachers’ Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers’ Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 10.25% or 9.205% of their 2017-18 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter’s contributions to CalSTRS for the last three fiscal years were as follows:

| | <u>Contribution</u> | <u>Percent of Required Contribution</u> |
|---------|---------------------|---|
| 2017-18 | \$ 221,658 | 100% |
| 2016-17 | \$ 183,859 | 100% |
| 2015-16 | \$ 174,532 | 100% |

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for Los Angeles Academy of Arts and Enterprise is estimated at \$112,059, which is computed as the proportionate share of total 2016-17 State on-behalf contributions.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2018

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Multi-employer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Charter's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Charter to make payments to the plan, which would approximate the Charter's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Charter's share of withdrawal liability is approximately \$2,627,377 as of June 30, 2017. Refer to Note 9 for additional information on employee retirement plans.

Governmental Funds

Los Angeles Academy of Arts and Enterprise has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Facility Lease Agreements

In June 2017, the Charter entered into a facilities alternative agreement with Los Angeles Unified School District to share space at the Edward R. Roybal Learning Center campus located at 1200 W. Colton Street in Los Angeles, California. The agreement is in effect for the 2016-17 and 2017-18 school years. Actual rent payments made were \$252,023 for the fiscal year ending June 30, 2018. Future minimum lease payments are estimated at \$352,296 for the fiscal year ending June 30, 2019.

Litigation

In November 2011, the Charter filed a lawsuit regarding facilities and later reached a settlement agreement in November 2013. Trial was reset and held in October and November 2015 over five days. On February 28, 2017, the court awarded the Charter \$2,955,668.63 in damages. The defendants sought an appeal. The appellate court is scheduled to hear the Charter's case in February 2019. A second suit has been filed against defendants for the time period after the first case, November 2013 to present day and that trial is scheduled for May 2019. The Charter anticipate another favorable judgment.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 11 – RELATED PARTY TRANSACTIONS

Authorizing Agency

The Charter makes payments to the authorizing agency, Los Angeles Unified School District, to provide required services for special education in addition to fees for oversight. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. Total fees paid to the authorizing agency for oversight amounted to \$35,693 and total payments for special education encroachment amounted to \$227,782 for the fiscal year ending June 30, 2018. Refer to Note 10 regarding facility lease agreement entered into with the District.

Board of Directors

Certain members of the Board of Directors are related parties. Moctesuma Esparza and Tonantzin Esparza are father and daughter and Hector and Norma Orcí are married.

Education Service Provider

Academica California serves as the charter's education service provider. Academica California provides the charter with comprehensive services and support to comply with the requirements of varying regulatory authorities. Total payments amounted to \$157,426 for outsourcing charter administrative services and support. At the May 23, 2018 meeting, the LAAAE board canceled the Academica California agreement. Services were discontinued, and May and June 2018 were not billed.

NOTE 12 – SUBSEQUENT EVENTS

Los Angeles Academy of Arts and Enterprise has evaluated subsequent events for the period from June 30, 2018 through December 14, 2018 the date the financial statements were available to be issued. Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 CHARTER ORGANIZATIONAL STRUCTURE
 JUNE 30, 2018**

Los Angeles Academy of Arts and Enterprise, located in Los Angeles County, was formed as a nonprofit public benefit corporation on March 17, 2005 and approved by the State Board of Education in March 30, 2005. The Charter was authorized to operate as a charter school through Los Angeles Unified School District. Classes began in September 2005 for grade 6 only. During 2017-18, the Charter served approximately 348 students in grades 6 to 12. Los Angeles Academy of Arts and Enterprise’s charter number is 0675.

BOARD OF DIRECTORS

| <u>Name</u> | <u>Office</u> | <u>Term Expiration</u> |
|-------------------|-------------------------|------------------------|
| Moctesuma Esparza | Chair | June 2020 |
| Hector Orci | Vice Chair | June 2020 |
| Julio Vallejo | Secretary and Treasurer | May 2021 |
| Tonantzin Esparza | Member | December 2019 |
| Norma Orci | Member | June 2020 |
| Otto Padròn | Member | June 2020 |
| Victoria Castro | Member | May 2021 |

ADMINISTRATION

David Calvo
Principal

Anthony Phan
Assistant Principal

Melvin Cortez *
Assistant Principal

* Resigned on May 24, 2018

See accompanying note to supplementary information.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 SCHEDULE OF AVERAGE DAILY ATENDANCE
 FOR THE YEAR ENDED JUNE 30, 2018

| | | Classroom Based | |
|---|--|-----------------|-----------------|
| | | Second Period | |
| | | Report | Annual Report |
| <i>Certificate Number</i> | | <i>E4EBDB34</i> | <i>A905A1C3</i> |
| Grade Span | | | |
| Sixth | | 43.52 | 43.79 |
| Seventh through eighth | | 78.19 | 77.47 |
| Nine through twelfth | | 206.26 | 204.62 |
| Total Average Daily Attendance - Classroom Based | | 327.97 | 325.88 |

The Charter had no Non-Classroom Based ADA in 2017-18.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2018

| Grade Span | Minutes Requirement | 2017-18 Actual Minutes | Number of Days Traditional Calendar | Status |
|---------------------|----------------------------|-------------------------------|--|---------------|
| Grades 6 through 8 | 54,000 | 65,310 | 190 | Complied |
| Grades 9 through 12 | 64,800 | 65,310 | 190 | Complied |

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (UNAUDITED ACTUALS)
WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

| | |
|--|---------------------|
| June 30, 2018, net position per Charter School Enterprise Fund | <u>\$ 2,450,927</u> |
| Adjustments: | |
| Increase (decrease) in total net assets: | |
| Understatement of federal revenues | 1,200 |
| Understatement of employee benefits expense | (2,453) |
| Understatement of books and supplies expense | (9,282) |
| Understatement of services and other operating expenses | (28,997) |
| Understatement of other outgo for repayment of restricted revenues | (32,257) |
| Unrecorded payable for books and supplies | <u>(13,840)</u> |
| Total net adjustments | <u>(85,629)</u> |
| June 30, 2018, net assets per audited financial statements | <u>\$ 2,365,298</u> |

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u> | <u>CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|------------------------|---|---------------------------------|
| U. S. DEPARTMENT OF EDUCATION: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | \$ 167,123 |
| Title II, Part A, Teacher Quality | 84.367 | 14341 | 17,327 |
| Title III, English Learner Student Program | 84.365 | 14346 | 18,263 |
| IDEA Basic Local Assistance Entitlement, Part B, Sec 611 | 84.027 | 13379 | 63,774 |
| <i>Passed through California School Finance Authority:</i> | | | |
| Title V, State Charter School Facilities Incentive Grant [1] | 84.282D | 24945 | 250,000 |
| Total U. S. Department of Education | | | <u>516,487</u> |
| U. S. DEPARTMENT OF AGRICULTURE: | | | |
| <i>Passed through California Department of Education:</i> | | | |
| National School Lunch Program [1] | 10.555 | 13391 | 239,984 |
| Total U. S. Department of Agriculture | | | <u>239,984</u> |
| Total Federal Expenditures | | | <u>\$ 756,471</u> |

[1] - Major Program

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

A. **Charter Organizational Structure**

This schedule provides information about the Charter’s authorizing agency, grades served, members of the governing body, and members of the administration.

B. **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the charter school. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

C. **Schedule of Instructional Time**

Los Angeles Academy of Arts and Enterprise receives, as part of their local control funding formula sources, incentive funding for maintaining instructional time. This schedule presents information on the amount of instructional time offered by the Los Angeles Academy of Arts and Enterprise and whether the Charter complied with the provisions of *Education Code Section 46200 through 46208*.

D. **Reconciliation of Annual Financial and Budget Report (Unaudited Actuals) with Audited Financial Statements**

This schedule provides the information necessary to reconcile fund balance reported on the Annual Financial and Budget Report (Unaudited Actuals) within the Charter Schools Enterprise Fund to net assets on the audited financial statements.

E. **Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Charter and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Charter has not elected to use the 10 percent de minimis indirect cost rate.

**OTHER INDEPENDENT AUDITORS'
REPORTS**

**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

To the Board of Directors of
Los Angeles Academy of Arts and Enterprise
Los Angeles, California

We have audited, 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, the financial statements of Los Angeles Academy of Arts and Enterprise (the "Charter") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated December 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter's internal control over financial reporting ("internal control") to determine the auditing 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 the Charter's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter'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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter'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 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 the Charter'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 Charter's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White Associates

San Diego, California
December 14, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE

Independent Auditors' Report

Governing Board
Los Angeles Academy of Arts and Enterprise
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited Los Angeles Academy of Arts and Enterprise's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Los Angeles Academy of Arts and Enterprise's major federal programs for the year ended June 30, 2018. Los Angeles Academy of Arts and Enterprise's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Los Angeles Academy of Arts and Enterprise's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Los Angeles Academy of Arts and Enterprise's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Los Angeles Academy of Arts and Enterprise's compliance.

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Opinion on Each Major Federal Program

In our opinion, Los Angeles Academy of Arts and Enterprise complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Los Angeles Academy of Arts and Enterprise is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Los Angeles Academy of Arts and Enterprise's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Los Angeles Academy of Arts and Enterprise's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
December 14, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Directors of
Los Angeles Academy of Arts and Enterprise
Los Angeles, California

Report on State Compliance

We have audited Los Angeles Academy of Arts and Enterprise's compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Los Angeles Academy of Arts and Enterprise's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Los Angeles Academy of Arts and Enterprise's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about Los Angeles Academy of Arts and Enterprise's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Los Angeles Academy of Arts and Enterprise's compliance with those requirements.

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Opinion on State Compliance

In our opinion, Los Angeles Academy of Arts and Enterprise complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is described in the accompanying findings and questioned costs section as Finding 2018-001. Our opinion on state compliance is not modified with respect to this matter.

Los Angeles Academy of Arts and Enterprise's response to the noncompliance finding identified in our audit is described in the accompanying findings and questioned costs section and corrective action plan. Los Angeles Academy of Arts and Enterprise's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Los Angeles Academy of Arts and Enterprise's compliance with the state laws and regulations applicable to the following items:

| Description | Procedures Performed |
|--|----------------------|
| School Districts, County Offices of Education and Charter Schools | |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |
| After/Before School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study – Course Based | Not applicable |
| Charter Schools | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Nonclassroom-Based Instruction/Independent Study for Charter Schools | Not applicable |
| Determination of Funding for Nonclassroom-Based Instruction | Not applicable |
| Annual Instructional Minutes – Classroom Based | Yes |
| Charter School Facility Grant Program | Yes |

Christy White Associates

San Diego, California
December 14, 2018

**FINDINGS AND QUESTIONED COSTS
SECTION**

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Statements

| | |
|--|----------------------|
| Type of auditors' report issued | <u>Unmodified</u> |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | <u>No</u> |
| Significant deficiency(ies) identified not considered to be material weaknesses? | <u>None Reported</u> |
| Noncompliance material to financial statements noted? | <u>No</u> |

Federal Awards

| | |
|---|----------------------|
| Internal control over major program: | |
| Material weakness(es) identified? | <u>No</u> |
| Significant deficiency(ies) identified? | <u>None Reported</u> |
| Type of auditors' report issued: | <u>Unmodified</u> |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)? | <u>No</u> |

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| <u>84.282D</u> | <u>Title V, State Charter School Facilities Incentive Grant</u> |
| <u>10.555</u> | <u>National School Lunch Program</u> |

| | |
|--|-------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$ 750,000</u> |
| Auditee qualified as low-risk auditee? | <u>No</u> |

State Awards

| | |
|--|-------------------|
| Internal control over state programs: | |
| Material weakness(es) identified? | <u>No</u> |
| Significant deficiency(ies) identified not considered to be material weaknesses? | <u>Yes</u> |
| Type of auditors' report issued on compliance for state programs: | <u>Unmodified</u> |

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no findings related to the financial statements for the year ended June 30, 2018.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no findings and questioned costs related to federal awards for the year ended June 30, 2018.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

| <u>FIVE DIGIT CODE</u> | <u>AB 3627 FINDING TYPE</u> |
|------------------------|------------------------------------|
| 10000 | Attendance |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Programs |
| 60000 | Miscellaneous |
| 61000 | Classroom Teacher Salaries |
| 62000 | Local Control Accountability Plan |
| 70000 | Instructional Materials |
| 71000 | Teacher Misassignments |
| 72000 | School Accountability Report Card |

FINDING 2018-001: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000)

Criteria: Per California Education Code Section 8483(a)(4), it is the intent of the legislature that that pupils in middle school participate in the full day of the program every day during which pupils participate to accomplish program goals. In addition, every program shall establish a policy regarding reasonable early release of pupils to the program.

Condition: During our audit procedures over program attendance, we noted two (2) of ten (10) students left the program early but did not have a signed early release policy on file. Through inquiry and observation, it was noted that early release forms are not properly maintained by the Charter. While a specific early release has been adopted by the Charter, it does not appear that the program consultant, Youth Policy Institute (YPI), is adequately monitoring and enforcing the policy.

Effect: The Charter is not in compliance with ASES program attendance requirements.

Cause: The ASES program is not collecting early release policies for every instance a student leaves early.

Questioned Costs: None. There were no misstatements noted that caused the Charter to fall below the 85% attendance threshold and would therefore have no effect on program funding.

Recommendation: We recommend the Charter ensure that program staff adequately monitor pupil participation. Pupils should adhere to the adopted early release policy or be excluded from reported program attendance.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINDING 2018-001: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000) (continued)

Corrective Action Plan: Upon becoming aware of the issue, Youth Policy Institute (YPI) took immediate action to address the finding. YPI generated the following action plan to ensure that every student attending the ASES After School Program has proper documentation on file, per ASES grant requirements.

- As of August 30, 2018 all students admitted into the ASES After School Program have a completed early release form on file. This process ensures that all students who sign out of the program before 6:00 PM meet the attendance daily requirement.
- Youth Policy Institute will implement quarterly on-site internal audits to ensure all student records are on file in accordance with ASES grant requirements. The first quarterly audit will be conducted on Tuesday, September 18, 2018. The assigned internal auditor will review attendance rosters, YPI enrollment and consent forms, iWalk iRide forms, and Early Release forms to ensure that they match up with the attendance records in our online attendance reporting database, EZ Reports.
- The program Site Coordinator and front line staff will be re-trained on the ASES grant requirements and Early Release Policies and Procedures. The Site Coordinator will monitor attendance records daily to ensure continued compliance.
- YPI will begin utilizing an "Attendance site audit form" used for site specific audits. This form is meant to record discrepancies found by the Site Coordinator on student rosters. If any discrepancies are found, the Site Coordinator will review the errors with front line staff and develop a plan to correct the issue.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings for the year ended June 30, 2017.