



LOS ANGELES ACADEMY OF ARTS & ENTERPRISE

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2017

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
TABLE OF CONTENTS
JUNE 30, 2017

FINANCIAL SECTION

Independent Auditors' Report 1
Financial Statements
 Statement of Financial Position 3
 Statement of Activities 4
 Statement of Functional Expenses 5
 Statement of Cash Flows 6
Notes to Financial Statements 7

SUPPLEMENTARY INFORMATION SECTION

Charter Organizational Structure 16
Schedule of Average Daily Attendance 17
Schedule of Instructional Time 18
Reconciliation of Financial Report – Alternative Form with Audited Financial Statements 19
Notes to the Supplementary Information 20

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* 21
Report on State Compliance 23

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 25
Financial Statement Findings 26
State Award Findings and Questioned Costs 27
Summary Schedule of Prior Audit Findings and Questioned Costs 28

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles Academy of Arts & Enterprise (the "Charter") which comprise the statement of financial position as of June 30, 2017, 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 of 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 Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

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 & Enterprise as of June 30, 2017, 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 & Enterprise taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 13, 2017, 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 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 13, 2017

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 2,012,458
Accounts receivable	508,153
Prepaid expenses	13,814
Other asset	51,336
Total current assets	<u>2,585,761</u>

Capital assets

Property and equipment	158,596
Less accumulated depreciation	<u>(26,368)</u>
Capital assets, net	<u>132,228</u>
Total Assets	<u>2,717,989</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	374,399
Loans payable	142,816
Total liabilities	<u>517,215</u>

Net assets

Unrestricted	<u>2,200,774</u>
Total net assets	<u>2,200,774</u>
Total Liabilities and Net Assets	<u>\$ 2,717,989</u>

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

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 2,793,746	\$ -	\$ 2,793,746
Federal revenues	474,411	-	474,411
Other state revenues	691,844	-	691,844
Total federal and state support and revenues	3,960,001	-	3,960,001
Local support and revenues			
Payments in lieu of property taxes	737,148	-	737,148
Grants and donations	8,500	-	8,500
Investment income, net	2,014	-	2,014
Other local revenues	38,851	-	38,851
Total local support and revenues	786,513	-	786,513
Repayment of restricted sources	55,469	(55,469)	-
Total Support and Revenues	4,801,983	(55,469)	4,746,514
EXPENSES			
Program services	3,728,085	-	3,728,085
Supporting services			
Management and general	441,839	-	441,839
Total Expenses	4,169,924	-	4,169,924
CHANGE IN NET ASSETS	632,059	(55,469)	576,590
Net Assets - Beginning	1,568,715	55,469	1,624,184
Net Assets - Ending	\$ 2,200,774	\$ -	\$ 2,200,774

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

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 1,454,045	\$ 35,813	\$ 1,489,858
Classified salaries	205,042	85,763	290,805
Deferred compensation	277,854	-	277,854
Payroll taxes	58,198	3,269	61,467
Other employee benefits	127,021	3,927	130,948
Total personnel expenses	<u>2,122,160</u>	<u>128,772</u>	<u>2,250,932</u>
Non-personnel expenses			
Books and supplies	436,492	915	437,407
Insurance	30,738	2,314	33,052
Facilities	195,779	14,306	210,085
Professional services	599,368	158,493	757,861
Equipment	37,746	796	38,542
Depreciation	5,042	379	5,421
Interest expense	-	10,988	10,988
Payments to affiliates	246,104	2,472	248,576
Other operating expenses	54,656	66,935	121,591
Repayment of restricted revenues	-	55,469	55,469
Total non-personnel expenses	<u>1,605,925</u>	<u>313,067</u>	<u>1,918,992</u>
Total Expenses	<u>\$ 3,728,085</u>	<u>\$ 441,839</u>	<u>\$ 4,169,924</u>

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

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 576,590
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	5,421
Loss on disposal of fixed assets	65,981
(Increase) decrease in operating assets	
Accounts receivable	20,087
Prepaid expenses	64,513
Increase (decrease) in operating liabilities	
Accounts payable	90,517
Net cash provided by (used in) operating activities	<u>823,109</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	<u>(133,825)</u>
Net cash provided by (used in) investing activities	<u>(133,825)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on loans payable	<u>(30,858)</u>
Net cash provided by (used in) financing activities	<u>(30,858)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	658,426
Cash and cash equivalents - Beginning	<u>1,354,032</u>
Cash and cash equivalents - Ending	<u>\$ 2,012,458</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 10,988</u>

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

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Los Angeles Academy of Arts & 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, 2017, Los Angeles Academy of Arts & 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 & 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 & 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.

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 & 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 & ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (*continued*)

I. Cash and Cash Equivalents

Los Angeles Academy of Arts & 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, 2017, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

L. Capital Assets

Los Angeles Academy of Arts & 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 & 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.

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

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 Pronouncement

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2017, consist of the following:

Cash in banks, non-interest bearing	\$ 1,762,458
Cash in banks, interest bearing	250,000
Total Cash and Cash Equivalents	<u>\$ 2,012,458</u>

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

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 & 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, 2017, \$1,710,520 of Los Angeles Academy of Arts & Enterprise’s bank balance was exposed to custodial credit risk as deposits were over \$250,000 in accounts held with Pacific Western Bank.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consists of the following:

Local control funding formula sources	\$ 205,679
Federal sources	184,675
Other state sources	61,834
In-lieu of property taxes	55,965
Total Accounts Receivable	<u>\$ 508,153</u>

NOTE 4 – PREPAID EXPENSES

At June 30, 2017, prepaid expenses consisted of \$13,814 relating to insurance premiums for the 2017-18 school year.

NOTE 5 – OTHER ASSETS

At June 30, 2017, other assets consisted of \$51,336 for a rent security deposit paid in November 21, 2008.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Buildings and improvements	\$ 250,588	\$ -	\$ 250,588	\$ -
Computer and other equipment	54,948	133,825	30,177	158,596
Total at historical cost	<u>305,536</u>	<u>133,825</u>	<u>280,765</u>	<u>158,596</u>
Less: accumulated depreciation	235,731	5,421	214,784	26,368
Capital Assets, net	<u>\$ 69,805</u>	<u>\$ 128,404</u>	<u>\$ 65,981</u>	<u>\$ 132,228</u>

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS (continued)

During the for the year ended June 30, 2017, the Charter vacated its previously occupied facilities and recognized a net loss on capital asset disposals of \$65,981. This represents the book value remaining on buildings and improvements of \$63,492 and equipment of \$2,489.

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2017, consists of the following:

Due to grantor governments	\$	59,249
Deferred compensation		35,298
Compensated absences		31,894
Other payroll liabilities		18,801
Vendor payables		229,157
Total Accounts Payable	\$	374,399

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, 2017, the Charter made \$21,952 in principal payments and \$8,906 in interest. The outstanding balance on the promissory note was \$142,816 at June 30, 2017. Future payment obligations on the promissory note are as follows:

	Beginning Balance			Ending Balance	Due In
	July 1, 2015	Additions	Deletions		
Promissory Note	\$ 173,674	\$ -	\$ 30,858	\$ 142,816	\$ 31,858
Total Loans Payable	\$ 173,674	\$ -	\$ 30,858	\$ 142,816	\$ 31,858

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 & 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 2016-17 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2016-17 was 12.58% 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>
2016-17	\$ 183,859	100%
2015-16	\$ 174,532	100%
2014-15	\$ 131,980	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 & Enterprise is estimated at \$93,995, which is computed as the proportionate share of total 2015-16 State on-behalf contributions.

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 \$2,497,292 as of June 30, 2016. Refer to Note 9 for additional information on employee retirement plans.

Governmental Funds

Los Angeles Academy of Arts & 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

On January 2008, the Charter entered into a lease for the facilities located at 600 S. La Fayette Park Place in the City of Los Angeles. The lease agreement was modified on November 21, 2008 for a term ending August 31, 2015 with an option to renew for an additional five years. The school subsequently entered into a settlement agreement which provided for three one-year term renewals which the Charter had elected to exercise until August 31, 2016. For the year ended June 30, 2017, payments for rent associated with this lease agreement amounted to \$724,380. The landlord no longer wanted to honor the settlement agreement and the Charter made the decision to pursue alternative facilities under Proposition 39 with the Los Angeles Unified School District.

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 year. Future minimum lease payments are estimated at \$434,253 for the fiscal year ending June 30, 2018.

Litigation

In November 2011, the Charter filed a lawsuit regarding facilities and later reached a settlement agreement in November 2013. To date, several terms of the settlement remain outstanding. Because several items of the settlement agreement remained outstanding, Los Angeles Academy of Arts & Enterprise requested trial to be reset and remains in active litigation.

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

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 \$35,309 and total payments for special education encroachment amounted to \$213,267 for the fiscal year ending June 30, 2017. 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 \$177,408 for outsourcing charter administrative services and support.

NOTE 12 – SUBSEQUENT EVENTS

Los Angeles Academy of Arts & Enterprise has evaluated subsequent events for the period from June 30, 2017 through December 13, 2017 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 & ENTERPRISE
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2017

Los Angeles Academy of Arts & 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 2016-17, the Charter served approximately 345 students in grades 6 to 12. Los Angeles Academy of Arts & Enterprise’s charter number is 0675.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Moctesuma Esparza	Chair	June 2020
Eduardo Prado	Treasurer	October 2018
Hector Orci	Secretary	June 2020
Tonantzin Esparza	Member	December 2019
Norma Orci	Member	June 2020
Otto Padròn	Member	June 2020
Victoriano Rodriguez	Member	September 2018

ADMINISTRATION

Yolanda Jimenez
Principal

Anthony Berkenkamp *
Assistant Principal

* Resigned as of February 23, 2017

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
 SCHEDULE OF AVERAGE DAILY ATENDANCE
 FOR THE YEAR ENDED JUNE 30, 2017

Grade Span	Classroom Based	
	Second Period	
	Report	Annual Report
Fourth through sixth	31.02	31.28
Seventh through eighth	81.14	81.68
Nine through twelfth	222.33	223.47
Total Average Daily Attendance - Classroom Based	334.49	336.43

The Charter had no Non-Classroom Based ADA in 2016-17.

**LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2017**

Grade Span	Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
Grades 6 through 8	54,000	65,800	190	Complied
Grades 9 through 12	64,800	65,800	190	Complied

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

June 30, 2017, fund balance per alternative form	<u>\$ 2,255,319</u>
Adjustments:	
Increase (decrease) in total net assets:	
Record legal fee expense and payable	<u>(54,545)</u>
Total net adjustments	<u>(54,545)</u>
June 30, 2017, net assets per audited financial statements	<u>\$ 2,200,774</u>

See accompanying note to supplementary information.

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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 & 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 & Enterprise and whether the Charter complied with the provisions of *Education Code Section 46200 through 46208*.

D. Reconciliation of Annual Financial Report – Alternative Form and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form to net assets on the audited financial statements.

**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 & 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 & Enterprise (the "Charter") as of and for the year ended June 30, 2017, 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 13, 2017.

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 Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter'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 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 13, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

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

Report on State Compliance

We have audited Los Angeles Academy of Arts & Enterprise's compliance with the types of compliance requirements described in the *2016-17 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 & Enterprise's state programs for the fiscal year ended June 30, 2017, 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 & 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 *2016-17 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 & 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 & Enterprise's compliance with those requirements.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Opinion on State Compliance

In our opinion, Los Angeles Academy of Arts & 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, 2017.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Los Angeles Academy of Arts & 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	No
After 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
Immunizations	Yes
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

We did not perform procedures for California Clean Energy Jobs Act because there was no use of the funding. The Charter has recorded a payable as of June 30, 2017 to repay the restricted funds associated with this funding source.

Christy White Associates

San Diego, California
December 13, 2017

**FINDINGS AND QUESTIONED COSTS
SECTION**

**LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

The Charter did not expend more than \$750,000 in federal awards; therefore, a Federal Single Audit under Uniform Guidance is not applicable.

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>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017.

**LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no findings and questioned costs related to state awards for the year ended June 30, 2017.

LOS ANGELES ACADEMY OF ARTS & ENTERPRISE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

There were no audit findings for the year ended June 30, 2016.