

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2019**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA CHARTER SCHOOL**

Los Angeles Academy of Arts and Enterprise (Charter No. 0675)



**LOS ANGELES ACADEMY OF
ARTS & ENTERPRISE**
A Public Charter School in Los Angeles, California - Grades 6th to 12th

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
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JUNE 30, 2019**

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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, 2019, 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.

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, 2019, 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.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 1P to the financial statements, in 2018-19 Los Angeles Academy of Arts and Enterprise adopted new accounting guidance, ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 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, 2019, 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.



San Diego, California
December 13, 2019

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current assets	
Cash and cash equivalents	\$ 653,836
Investments	450,000
Accounts receivable	544,462
Prepaid expenses	72,541
Deposits	51,336
Total current assets	<u>1,772,175</u>

Capital assets	
Property and equipment	158,596
Less accumulated depreciation	<u>(56,610)</u>
Capital assets, net	101,986
Total Assets	<u>\$ 1,874,161</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 270,914
Deferred revenue	<u>5,000</u>
Total liabilities	<u>275,914</u>

Net assets	
Without donor restrictions	1,594,122
With donor restrictions	<u>4,125</u>
Total net assets	<u>1,598,247</u>
Total Liabilities and Net Assets	<u>\$ 1,874,161</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, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 2,501,185	\$ -	\$ 2,501,185
Federal revenues	692,142	-	692,142
Other state revenues	621,677	4,125	625,802
Total federal and state support and revenues	<u>3,815,004</u>	<u>4,125</u>	<u>3,819,129</u>
Local support and revenues			
Payments in lieu of property taxes	694,397	-	694,397
Grants and donations	502	-	502
Investment income, net	1,002	-	1,002
Other local revenues	22,508	-	22,508
Total local support and revenues	<u>718,409</u>	<u>-</u>	<u>718,409</u>
Total Support and Revenues	<u>4,533,413</u>	<u>4,125</u>	<u>4,537,538</u>
EXPENSES			
Program services	5,031,000	-	5,031,000
Management and general	273,589	-	273,589
Total Expenses	<u>5,304,589</u>	<u>-</u>	<u>5,304,589</u>
CHANGE IN NET ASSETS	(771,176)	4,125	(767,051)
Net Assets - Beginning	<u>2,365,298</u>	<u>-</u>	<u>2,365,298</u>
Net Assets - Ending	<u>\$ 1,594,122</u>	<u>\$ 4,125</u>	<u>\$ 1,598,247</u>

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, 2019**

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 1,744,778	\$ 38,124	\$ 1,782,902
Non-certificated salaries	697,093	50,962	748,055
Deferred compensation	501,846	-	501,846
Payroll taxes	98,479	5,589	104,068
Other employee benefits	191,045	11,966	203,011
Total personnel expenses	<u>3,233,241</u>	<u>106,641</u>	<u>3,339,882</u>
Non-personnel expenses			
Books and supplies	331,537	3,371	334,908
Insurance	33,145	2,882	36,027
Facilities	574,262	46,903	621,165
Professional services	502,814	107,983	610,797
Equipment	37,342	-	37,342
Depreciation	13,911	1,210	15,121
Interest expense	1,605	1,544	3,149
Payments to authorizing agency	201,544	2,395	203,939
Other operating expenses	101,599	660	102,259
Total non-personnel expenses	<u>1,797,759</u>	<u>166,948</u>	<u>1,964,707</u>
Total Expenses	<u>\$ 5,031,000</u>	<u>\$ 273,589</u>	<u>\$ 5,304,589</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, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (767,051)
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	(250,135)
Prepaid expenses	(52,959)
Increase (decrease) in operating liabilities	
Accounts payable	(157,869)
Deferred revenue	5,000
Net cash provided by (used in) operating activities	<u>(1,207,893)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on loans payable	<u>(110,193)</u>
Net cash provided by (used in) financing activities	<u>(110,193)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,318,086)
Cash and cash equivalents - Beginning	<u>1,971,922</u>
Cash and cash equivalents - Ending	<u>\$ 653,836</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 3,149</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, 2019

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, 2019, 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

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018.

Under the Guide, Los Angeles Academy of Arts and Enterprise is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

As a public charter school, the Charter also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. 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, 2019

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

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

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. 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.

I. 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. Investment return is presented net of any investment fees.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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, 2019, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. 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 net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

L. 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.

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.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements (continued)

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

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 effective dates for the new guidance are staggered. Public entities have already implemented the new guidance, and nonprofit entities are required to implement the new guidance for fiscal years beginning after December 15, 2018. The Charter will determine the impact on the financial statements once implemented for the fiscal year ending June 30, 2020.

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 was originally effective for public business entities for fiscal years beginning after December 15, 2018. In October 2019, FASB approved to delay effective dates for all public business entities, except for SEC filers, to fiscal years beginning after December 15, 2019. The Charter will determine the impact on the financial statements once implemented for the fiscal year ending June 30, 2021.

P. Change in Accounting Principle

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 implementation had no impact on the previously reported total net assets as of July 1, 2018. Total beginning net assets were unrestricted and have therefore been fully reclassified as net assets without donor restrictions under the new accounting principle.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2019, consist of cash in banks of \$653,836 in interest-bearing accounts.

Cash in Banks

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, 2019, \$728,312 of the Los Angeles Academy of Arts and Enterprise's bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held at one bank.

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, 2019, the carrying value of the certificates of deposit is \$450,000.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consists of the following:

Local control funding sources	\$	176,728
Federal sources		192,280
Other state sources		60,554
In-lieu property taxes		70,388
Other local sources		44,512
Total Accounts Receivable	\$	544,462

NOTE 5 – OTHER CURRENT ASSETS

Prepaid Expenses

At June 30, 2019, prepaid expenses consisted of \$72,541 relating to insurance premiums and storage rental payments for the 2019-20 school year.

Deposits

At June 30, 2019, 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.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 6 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2019 consists of the following:

	Balance			Balance
	July 1, 2018	Additions	Disposals	June 30, 2019
Property and equipment				
Computer and other equipment	\$ 158,596	\$ -	\$ -	\$ 158,596
Total property and equipment	158,596	-	-	158,596
Less accumulated depreciation	(41,489)	(15,121)	-	(56,610)
Capital Assets, net	\$ 117,107	\$ (15,121)	\$ -	\$ 101,986

NOTE 7 – LIABILITIES

Accounts Payable

Accounts payable as of June 30, 2019, consists of the following:

Salaries and benefits	\$ 42,393
Compensated absences	76,117
Other vendor payables	152,404
Total Accounts Payable	\$ 270,914

Deferred Revenue

As of June 30, 2019, deferred revenue of \$5,000 consists of local source revenue received but not yet earned.

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, 2019, the Charter made \$110,193 in principal payments and \$19,040 in interest for a total of \$129,233. The promissory note was fully repaid and there is no outstanding balance at June 30, 2019.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 8 – NET ASSETS

Net Assets with Donor Restrictions

As of June 30, 2019, the Charter’s net assets with donor restrictions consist of the following:

Low performing student block grant	\$ 1,976
Classified employee professional development	2,149
Total Net Assets with Donor Restrictions	<u>\$ 4,125</u>

Net Assets without Donor Restrictions

Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Charter. At June 30, 2019, the Charter’s net assets without donor restrictions consist of the following:

Net investment in capital assets	\$ 101,986
Undesignated	1,492,136
Total Net Assets without Donor Restrictions	<u>\$ 1,594,122</u>

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Charter’s financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

Financial assets	
Cash and cash equivalents	\$ 653,836
Investments, at cost	450,000
Accounts receivable, current portion	544,462
Prepaid expenses	72,541
Notes receivable, current portion	51,336
Total Financial Assets, excluding noncurrent	<u>\$ 1,772,175</u>
Contractual or donor-imposed restrictions	
Cash restricted by others for specific uses	<u>(4,125)</u>
Financial Assets available to meet cash needs for expenditures within one year	<u>\$ 1,768,050</u>

NOTE 10 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Los Angeles Academy of Arts and Enterprise in an effort to advance the Charter’s programs and objectives. These services have not been recorded in the Charter’s financial statements because they do not meet the criteria required by generally accepted accounting principles.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 11 – 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 members of the California Public Employees’ Retirement System (CalPERS).

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 10.205% of their 2018-19 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2018-19 was 16.28% 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>
2018-19	\$ 272,873	100%
2017-18	\$ 221,658	100%
2016-17	\$ 183,859	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 \$228,973. The on-behalf payment amount is computed as the proportionate share of total 2017-18 State on-behalf contributions plus an additional supplemental contribution for fiscal year 2018-19 due to California Senate Bill No. 90.

NOTE 12 – 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 \$2,508,376 as of June 30, 2018. Refer to Note 11 for additional information on employee retirement plans.

LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

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 Agreement

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. Actual rent payments made were \$586,292 for the fiscal year ending June 30, 2019.

Litigation

In November 2011, the Charter filed a facilities related suit against its former landlord and later reached a settlement agreement in November 2013. Because the terms of the settlement were not met, trial was reset and held in October and November 2015. In February 2017, the court awarded the Charter about \$3M in damages. The defendants sought an appeal. The appellate court reversed a portion of the lower court's award. An appeal was made to the California Supreme Court. They subsequently declined to hear the case. The appeal decision is now being finalized in the lower court. Concurrent to this case, a second suit was filed against defendants for the time period after the first case, November 2013 to present day and that trial is tentatively scheduled for September 2020. The Charter anticipates another favorable judgment.

NOTE 13 – 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 \$29,939 and total payments for special education encroachment amounted to \$174,000 for the fiscal year ending June 30, 2019. Refer to Note 12 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 Orci are married.

NOTE 14 – SUBSEQUENT EVENTS

Los Angeles Academy of Arts and Enterprise has evaluated subsequent events for the period from June 30, 2019 through December 13, 2019, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2019**

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 2018-19, the Charter served approximately 287 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 Orcí	Vice Chair	June 2020
Julio Vallejo	Secretary and Treasurer	May 2021
Tonantzin Esparza	Member	December 2019
Norma Orcí	Member	June 2020
Otto Pádrón	Member	June 2020
Victoria Castro	Member	May 2021

ADMINISTRATION

David Calvo
Principal

Michael Coleman
Assistant Principal

David DeFrenza
Assistant Principal

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 SCHEDULE OF AVERAGE DAILY ATENDANCE
 FOR THE YEAR ENDED JUNE 30, 2019**

	Second Period Report	Annual Report
<i>Certificate No.</i>	<u>B5C1A822</u>	<u>BD7DCEF2</u>
	<u>Classroom-Based</u>	
Grade Span		
Fourth through sixth	14.11	14.69
Seventh through eighth	82.28	82.33
Nine through twelfth	174.93	173.88
Total Average Daily Attendance - Classroom-Based	<u>271.32</u>	<u>270.90</u>

The Charter had no Nonclassroom-Based ADA in 2018-19.

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2019**

Grade Span	Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Grades 4 through 8	54,000	65,340	190	Complied
Grades 9 through 12	64,800	65,340	190	Complied

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2019**

There were no adjustments to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets per the audited financial statements for the year end ended June 30, 2019.

See accompanying note to supplementary information.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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 Financial Report – Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) 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 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, 2019, 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, 2019.

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.

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.

A handwritten signature in blue ink that reads "Christy White, Inc". The signature is written in a cursive, flowing style.

San Diego, California
December 13, 2019

REPORT ON STATE COMPLIANCEIndependent 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 *2018-19 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, 2019, 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 *2018-19 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.

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 following table for the year ended June 30, 2019.

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	
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	Not applicable



San Diego, California
December 13, 2019

FINDINGS AND QUESTIONED COSTS

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

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>None</u>

Federal Awards

*The Charter did not expend more than \$750,000 in federal awards;
therefore, a Federal Single Audit under OMB Uniform Grant 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 AND ENTERPRISE
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no audit findings related to the financial statements during 2018-19.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

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 audit findings and questioned costs related to state awards during 2018-19.

**LOS ANGELES ACADEMY OF ARTS AND ENTERPRISE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

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.

Current Status: Implemented.