

LOS FELIZ ARTS CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2020

OPERATING:

LOS FELIZ CHARTER SCHOOL FOR THE ARTS (LFCSA)

CHARTER SCHOOL NUMBER: 0827

LOS FELIZ CHARTER MIDDLE SCHOOL FOR THE ARTS (LFCMSA)

CHARTER SCHOOL NUMBER: 1960



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CONSULTING**

**LOS FELIZ ARTS CHARTER SCHOOL
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YEAR ENDED JUNE 30, 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Los Feliz Arts Charter School
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Los Feliz Arts Charter School (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2020, 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.

Auditors' 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 auditors' 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 School'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 School'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 on page 1 present fairly, in all material respects, the financial position of the School as of June 30, 2020, 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 School's financial statements as a whole. Los Feliz Charter School for the Arts, Los Feliz Charter Middle School for the Arts, and Elimination columns presented in the statement of financial position, activities, and cash flows and the supplementary schedules accompanying the financial statements as identified in the table of contents are presented for purposes of additional analysis and are 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 a report dated December 10, 2020 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 on the School'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 School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Glendora, California
December 10, 2020

**LOS FELIZ ARTS CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020**

ASSETS	<u>LFCSA</u>	<u>LFCMSA</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 1,570,619	\$ 85,469	\$ -	\$ 1,656,088
Accounts Receivable:				
Federal and State Receivable	685,902	385,088	-	1,070,990
Intercompany Receivables	315,611	-	(315,611)	-
Accounts Receivable - Other	83,068	27,812	-	110,880
Prepaid Expenses and Other Assets	90,748	24,206	-	114,954
Total Current Assets	<u>2,745,948</u>	<u>522,575</u>	<u>(315,611)</u>	<u>2,952,912</u>
LONG-TERM ASSETS				
Property, Plant, and Equipment, Net	1,145,066	276,308	-	1,421,374
Other Long-Term Assets	107,709	-	-	107,709
Total Long-Term Assets	<u>1,252,775</u>	<u>276,308</u>	<u>-</u>	<u>1,529,083</u>
 Total Assets	 <u>\$ 3,998,723</u>	 <u>\$ 798,883</u>	 <u>\$ (315,611)</u>	 <u>\$ 4,481,995</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 257,554	\$ 40,731	\$ -	\$ 298,285
Intercompany Payables	-	315,611	(315,611)	-
Deferred Revenue	2,835	665	-	3,500
Notes Payable, Current Portion	-	62,502	-	62,502
Total Current Liabilities	<u>260,389</u>	<u>419,509</u>	<u>(315,611)</u>	<u>364,287</u>
LONG-TERM LIABILITIES				
Deferred Rent	108,325	28,117	-	136,442
Notes Payable, Net of Current Portion	637,468	274,525	-	911,993
Total Long-Term Liabilities	<u>745,793</u>	<u>302,642</u>	<u>-</u>	<u>1,048,435</u>
 Total Liabilities	 1,006,182	 722,151	 (315,611)	 1,412,722
NET ASSETS				
Without Donor Restrictions	2,984,441	4,832	-	2,989,273
With Donor Restrictions	8,100	71,900	-	80,000
Total Net Assets	<u>2,992,541</u>	<u>76,732</u>	<u>-</u>	<u>3,069,273</u>
 Total Liabilities and Net Assets	 <u>\$ 3,998,723</u>	 <u>\$ 798,883</u>	 <u>\$ (315,611)</u>	 <u>\$ 4,481,995</u>

See accompanying Notes to Financial Statements.

**LOS FELIZ ARTS CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	LFCSA	LFCMSA	Total
REVENUES, WITHOUT DONOR RESTRICTIONS			
State Revenue:			
State Aid	\$ 2,410,138	\$ 537,013	\$ 2,947,151
Other State Revenue	784,451	132,160	916,611
Federal Revenue:			
Grants and Entitlements	235,938	233,647	469,585
Local Revenue:			
In-Lieu Property Tax Revenue	1,227,141	272,205	1,499,346
Contributions	336,078	366,876	702,954
Interest Income	3,581	840	4,421
Other Revenue	302,966	31,345	334,311
Net Assets Released From Restrictions	5,006	-	5,006
Total revenues	5,305,299	1,574,086	6,879,385
EXPENSES			
Program Services	4,354,509	1,149,240	5,503,749
Management and General	1,010,988	439,573	1,450,561
Fundraising	11,331	2,206	13,537
Total Expenses	5,376,828	1,591,019	6,967,847
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS			
	(71,529)	(16,933)	(88,462)
NET ASSETS WITH DONOR RESTRICTIONS			
Contributions	8,100	71,900	80,000
Net Assets Released From Restriction	(5,006)	-	(5,006)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS			
	3,094	71,900	74,994
CHANGE IN TOTAL NET ASSETS			
	(68,435)	54,967	(13,468)
Net Assets - Beginning of Year	3,060,976	21,765	3,082,741
NET ASSETS - END OF YEAR	\$ 2,992,541	\$ 76,732	\$ 3,069,273

See accompanying Notes to Financial Statements.

**LOS FELIZ ARTS CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and Wages	\$ 3,015,221	\$ 534,907	\$ 2,677	\$ 3,552,805
Pension Expense	387,738	27,919	-	415,657
Other Employee Benefits	190,158	37,635	145	227,938
Payroll Taxes	91,549	27,097	183	118,829
Legal Expenses	-	55,760	-	55,760
Accounting Expenses	-	166,473	-	166,473
Instructional Materials	48,514	-	-	48,514
Other Fees for Services	611,793	62,668	-	674,461
Advertising and Promotion Expenses	-	17,174	-	17,174
Office Expenses	17,815	165,242	-	183,057
Occupancy Expenses	843,583	138,505	811	982,899
Travel Expenses	5,879	-	-	5,879
Interest Expense	-	6,777	-	6,777
Depreciation Expense	47,241	108,949	-	156,190
Insurance Expense	-	58,688	-	58,688
Other Expenses	244,258	42,767	9,721	296,746
Total Expense by Function	<u>\$ 5,503,749</u>	<u>\$ 1,450,561</u>	<u>\$ 13,537</u>	<u>\$ 6,967,847</u>

See accompanying Notes to Financial Statements.

**LOS FELIZ ARTS CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020**

	<u>LFCSA</u>	<u>LFCMSA</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ (68,435)	\$ 54,967	\$ (13,468)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:			
Depreciation	115,121	41,068	156,189
Change in Operating Assets:			
Accounts Receivable - Federal and State	(57,662)	(258,510)	(316,172)
Intercompany Receivables	(315,611)	-	(315,611)
Accounts Receivable - Other	21,547	(20,512)	1,035
Prepaid Expenses	16,987	(3,665)	13,322
Other Long-Term Assets	(20,000)	-	(20,000)
Change in Operating Liabilities:			
Accounts Payable and Accrued Liabilities	137,595	(27,384)	110,211
Intercompany Payables	-	315,611	315,611
Deferred Revenue	(12,943)	(3,036)	(15,979)
Deferred Rent	108,325	28,117	136,442
Net Cash (Used in) Provided by Operating Activities	<u>(75,076)</u>	<u>126,656</u>	<u>51,580</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Property, Plant, and Equipment	(44,947)	(184,254)	(229,201)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Debt	637,468	149,529	786,997
Repayments of Debt	-	(62,502)	(62,502)
Net Cash Provided by Financing Activities	<u>637,468</u>	<u>87,027</u>	<u>724,495</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	517,445	29,429	546,874
Cash and Cash Equivalents - Beginning of Year	<u>1,053,174</u>	<u>56,040</u>	<u>1,109,214</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,570,619</u>	<u>\$ 85,469</u>	<u>\$ 1,656,088</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash Paid for Interest	<u>\$ 1,104</u>	<u>\$ 5,673</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Los Feliz Arts Charter School (the School) is a California nonprofit public benefit corporation and is organized to manage and operate a public charter school. The School began serving students in September 2006. The School is funded principally through state of California public education monies received through the California Department of Education.

The School is comprised of the following sites:

- Los Feliz Charter School for the Arts (LFCSA)
- Los Feliz Charter Middle School for the Arts (LFCMSA)

The charter may be revoked by the Los Angeles Unified School District for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

Costs of providing the School's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The expenses that are allocated include pension expense, other employee benefits, payroll taxes, other fees for services, information technology, occupancy, and other expenses, which are allocated on the basis of estimates of time and effort.

Cash and Cash Equivalents

The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classes

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Accounts Receivable

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2020. Management believes that all receivables are fully collectible; therefore, no provisions for uncollectible accounts were recorded.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, if purchased or at estimated fair value, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset. The useful lives range varies from 7 to 18 years.

Revenue Recognition

Amounts received from the California Department of Education are conditional and recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets without donor restriction, if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in net assets with donor restriction.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. There was no conditional contributions at June 30, 2020.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability of the School. The current portion of the liability, if material, is recognized at year-end. The entire compensated absences liability is reported on the statement of financial position. Vacation days are accrued at a rate of 25 days per year, up to a maximum of 30 days per year.

Income Taxes

The School is a nonprofit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. The School files an exempt School return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenues from Contracts with Customers (Topic 606). The update establishes the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The School has early adopted the implementation of ASU 2014-09 under the full retrospective approach. There was no material impact on the School's financial position and results of operations upon adoption of the new standard.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The School has implemented ASU 2018-08 under the modified prospective approach. There was no material impact on the School's financial position and results of operations upon adoption of the new standard.

Evaluation of Subsequent Events

The School has evaluated subsequent events through December 10, 2020, the date these financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

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

Cash and Cash Equivalents	\$ 1,656,088
Accounts Receivable:	
Federal and State Receivable	1,070,990
Accounts Receivable - Other	110,880
Less: Net Assets With Donor Restrictions	(80,000)
	<u>\$ 2,757,958</u>

As part of its liquidity management plan, the School monitors liquidity required and cash flows to meet operating needs on a monthly basis. The School structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 CONCENTRATION OF CREDIT RISK

The School maintains its cash in bank deposit accounts at various institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, cash in these accounts exceeds the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment in the accompanying financial statements are presented net of accumulated depreciation. The School capitalizes all expenditures for land, buildings, and equipment in excess of \$1,000. Depreciation expense for the year ended June 30, 2020 was \$156,190.

The components of property, plant, and equipment as of June 30, 2020 are as follows:

Building	\$ 1,936,004
Leasehold Improvements	126,787
Equipment, Furniture, and Fixtures	496,294
Total	<u>2,559,085</u>
Less: Accumulated Amortization	<u>(1,137,711)</u>
Total Property, Plant, and Equipment	<u>\$ 1,421,374</u>

NOTE 5 LONG-TERM DEBT

Los Feliz Charter Middle School for the Arts received a revolving loan from the California School Finance Authority in the amount of \$250,000. The loan has a term of four years and carries an interest rate of 2.28%. The outstanding amount related to this loan totaled \$187,498 at June 30, 2020.

On April 25, 2020, the School received a loan from Hanmi Bank in the amount of \$776,997 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months, deferred for 6 months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the School fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, the School will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in October 2020 principal and interest payments will be required through the maturity date in April 2022.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 LONG-TERM DEBT (CONTINUED)

On April 25, 2020, the School obtained a Small Business Administration (SBA) Economic Injury Disaster Loan from a financial institution in the amount of \$10,000. The loan carries and interest rate of 2.75% and matures on April 5, 2050.

The loan repayment schedule by year is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 62,502
2022	839,844
2023	62,839
2024	345
2025	345
Thereafter	8,620
Total	<u>\$ 974,495</u>

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to Expenditure for Specified Purpose:	
COVID-19 Assistance Fund	\$ 20,000
Public Charter Start-Up Application	50,000
Subject to Passage of Time:	10,000
Total Net Assets With Donor Restriction	<u>\$ 80,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors as follows for the year ended June 30:

Subject to Expenditure for Specific Purpose:	
Classified Professional Development Block Grant	<u>\$ 5,006</u>

NOTE 7 EMPLOYEE RETIREMENT

Multi-Employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the state of California.

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, b) the required member, employer, and state contribution rates are set by the California Legislature, and c) if the School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from this multi-employer plan.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 7 EMPLOYEE RETIREMENT (CONTINUED)

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2019, total STRS plan net assets are \$273 billion, the total actuarial present value of accumulated plan benefits is \$392 billion, contributions from all employers totaled \$5.6 billion, and the plan is 66% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826 and www.calstrs.com.

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020-21. The required employer contribution rate for year ended June 30, 2020 was 17.10% of annual payroll. The contribution requirements of the plan members are established and may be amended by state statute.

The School's contributions to STRS for the past three years are as follows:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2018	\$ 295,324	100%
2019	\$ 398,827	100%
2020	\$ 414,337	100%

Defined Contribution Plan

The School offers an Internal Revenue Code Section 403(b) retirement plan to each of its qualifying employees. Employer and employee contributions are used to purchase annuity contracts for each participant employee. The amount of employer contributions for the year ended June 30, 2020 was \$1,320.

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 OPERATING LEASES

The School has entered into a lease agreement for the use of its facilities in Los Angeles, California. The lease term was renewed in October 2019 and will expire in August 2029. Under the terms of the renewed lease, future rent adjustments are based upon 3% compounded increases calculated at the beginning of each adjustment period.

In June 2019, the School entered into a lease agreement for the use of its facilities in Los Angeles, California. The lease commenced in August 2019 and will expire in July 2029. Monthly rent payments of \$15,000 and future rent adjustments are based upon 3% compounded increases calculated at the beginning of each adjustment period.

Rent expense for the year ended June 30, 2020 was \$885,243.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 762,469
2022	783,289
2023	865,962
2024	891,947
2025	918,709
Thereafter	<u>4,250,680</u>
Total	<u><u>\$ 8,473,056</u></u>

NOTE 9 CONTINGENCIES, RISKS AND UNCERTAINTIES

The School 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 disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the School, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the School is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

SUPPLEMENTARY INFORMATION

**LOS FELIZ ARTS CHARTER SCHOOL
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 YEAR ENDED JUNE 30, 2020
 (SEE INDEPENDENT AUDITORS' REPORT)**

Los Feliz Arts Charter School (the School) is a California nonprofit public benefit corporation and operates two charter schools approved by the Los Angeles Unified School District, established in 2006 and 2018:

The charter school number for Los Feliz Arts Charter School for the Arts is 0827.

The charter school number for Los Feliz Arts Charter Middle School for the Arts is 1960.

The board of directors and the administrator as of the year ended June 30, 2020 were as follows:

BOARD OF DIRECTORS

Member	Office	Term End
Nika Serras	Chair	September 2021
Qiana Patterson	Vice Chair	September 2021
Lissa Sanders	Secretary	March 2020
Jerry Gonzales	Treasurer	September 2020
Margueax Randolph	Member	March 2020
Betsy Chapman	Member	May 2021
Michelle Montano	Member	September 2021
Amy Sloboda	Member	September 2021
Mari Forge	Member	September 2021

ADMINISTRATORS

Linda Lee	Executive Director/Principal
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**LOS FELIZ ARTS CHARTER SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	Instructional Minutes		Credited Minutes COVID-19 School Closure Certification	Total Actual Plus Credited Minutes
	Requirement	Actual		
Los Feliz Charter School for the Arts:				
Transitional Kindergarten	36,000	42,290	19,520	61,810
Kindergarten	36,000	36,410	16,880	53,290
Grade 1	50,400	40,320	18,600	58,920
Grade 2	50,400	40,320	18,600	58,920
Grade 3	50,400	40,320	18,600	58,920
Grade 4	54,000	40,320	18,600	58,920
Grade 5	54,000	40,320	18,600	58,920
Los Feliz Charter Middle School for the Arts:				
Grade 6	54,000	44,625	20,595	65,220
Grade 7	54,000	44,625	20,595	65,220
	Traditional Calendar Days	Credited Days COVID-19 School Closure Certification	Total Actual Plus Credited Days	Status
Los Feliz Charter School for the Arts:				
Transitional Kindergarten	123	57	180	In Compliance
Kindergarten	123	57	180	In Compliance
Grade 1	123	57	180	In Compliance
Grade 2	123	57	180	In Compliance
Grade 3	123	57	180	In Compliance
Grade 4	123	57	180	In Compliance
Grade 5	123	57	180	In Compliance
Los Feliz Charter Middle School for the Arts:				
Grade 6	123	57	180	In Compliance
Grade 7	123	57	180	In Compliance

See accompanying Notes to Supplementary Information

**LOS FELIZ ARTS CHARTER SCHOOL
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
Los Feliz Charter School for the Arts:				
Grades TK/K-3	270.70	275.68	270.70	275.68
Grades 4-6	129.04	130.27	129.04	130.27
Total	<u>399.74</u>	<u>405.95</u>	<u>399.74</u>	<u>405.95</u>
Los Feliz Charter Middle School for the Arts:				
Grades 4-6	55.49	56.00	55.49	56.00
Grades 7-8	36.10	36.19	36.10	36.19
ADA Total	<u>91.59</u>	<u>92.19</u>	<u>91.59</u>	<u>92.19</u>

See accompanying Notes to Supplementary Information

**LOS FELIZ ARTS CHARTER SCHOOL
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	LFCSA	LFCMSA
June 30, 2020 Annual Financial Report Fund Balances (Net Assets)	\$ 3,092,766	\$ 32,949
Adjustments and Reclassifications:		
Increase (Decrease) of Fund Balance (Net Assets):		
Deferred Revenue	8,100	71,900
Deferred Rent	(108,325)	(28,117)
Net Adjustments and Reclassifications	(100,225)	43,783
June 30, 2020 Audited Financial Statement Fund Balances (Net Assets)	\$ 2,992,541	\$ 76,732

See accompanying Notes to Supplementary Information

**LOS FELIZ ARTS CHARTER SCHOOL
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020**

PURPOSE OF SCHEDULES

NOTE 1 SCHEDULE OF INSTRUCTIONAL TIME

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of the California Education Code.

NOTE 2 SCHEDULE OF AVERAGE DAILY ATTENDANCE

Average daily attendance is a measurement of the number of pupils attending classes of the 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.

NOTE 3 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Los Feliz Arts Charter School
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Los Feliz Arts Charter School (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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 School'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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Glendora, California
December 10, 2020



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Los Feliz Arts Charter School
Willows, California

We have audited Los Feliz Arts Charter School's (the School) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2020. The School's state compliance requirements are identified in the table below.

Management's Responsibility

Management is responsible for the compliance with the state laws and regulations as identified below.

Auditors' Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance requirements referred to below. 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 *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School'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 state compliance. Our audit does not provide a legal determination of the School's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the School's compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After and Before School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

Compliance Requirements Tested (Continued)

<u>Description</u>	<u>Procedures Performed</u>
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 Instructional/Independent Study	No ¹
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not applicable

¹ Nonclassroom ADA was under the threshold that required testing.

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2020.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
December 10, 2020

**LOS FELIZ ARTS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements or state awards for the year ended June 30, 2020.

**LOS FELIZ ARTS CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020**

There were no findings and questioned costs related to the basic financial statements or state awards for the year ended June 30, 2019.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

