

CITY CHARTER SCHOOLS
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2019

OPERATING:

CITY LANGUAGE IMMERSION CHARTER (CLIC) #1538
THE CITY SCHOOL (TCS) #1710

4001 VENICE, LLC (LLC1)
CCS FACILITIES, LLC (LLC2)



CLAcconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

**CITY CHARTER SCHOOLS
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED BASIC FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENT OF ACTIVITIES	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE	15
SCHEDULE OF INSTRUCTIONAL TIME	16
SCHEDULE OF AVERAGE DAILY ATTENDANCE	17
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS	18
NOTES TO SUPPLEMENTARY INFORMATION	19
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 <i>GOVERNMENT AUDITING STANDARDS</i>	20
INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE	22
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	24
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	25



INDEPENDENT AUDITORS' REPORT

Board of Directors
City Charter Schools
Los Angeles, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of City Charter Schools (the School), a California nonprofit public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to on page 1 present fairly, in all material respects, the financial position of the School 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.


Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's consolidated financial statements as a whole. The CLIC, TCS, LLC 1, LLC 2, CMO, and Eliminations columns in consolidated statement of financial position, activities, and cash flows as well as the supplementary schedules accompanying the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 October 24, 2019 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
October 24, 2019

**CITY CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
YEAR ENDED JUNE 30, 2019**

ASSETS	<u>CLIC</u>	<u>TCS</u>	<u>LLC1</u>	<u>LLC2</u>	<u>CMO</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS							
Cash and Cash Equivalents	\$ 1,498,342	\$ 115,269	\$ 115,792	\$ 2,992	\$ 103,205	\$ -	\$ 1,835,600
Accounts Receivable - Federal and State	526,836	412,102	-	-	-	-	938,938
Accounts Receivable - Other	53,880	16,105	-	-	953	-	70,938
Intercompany Accounts Receivable	372,828	73,900	-	-	156,703	(603,431)	-
Deferred Rent Asset, Current Portion	-	-	13,158	15,629	-	(28,787)	-
Prepaid Expenses and Other Assets	36,847	80,439	-	52,328	5,816	-	175,430
Total Current Assets	<u>2,488,733</u>	<u>697,815</u>	<u>128,950</u>	<u>70,949</u>	<u>266,677</u>	<u>(632,218)</u>	<u>3,020,906</u>
LONG-TERM ASSETS							
Restricted Cash and Cash Equivalents	-	-	828,625	-	-	-	828,625
Property, Plant, and Equipment, Net	65,336	198,583	11,113,678	314,985	539	-	11,693,121
Total Long-Term Assets	<u>65,336</u>	<u>198,583</u>	<u>11,942,303</u>	<u>314,985</u>	<u>539</u>	<u>-</u>	<u>12,521,746</u>
Total Assets	<u>\$ 2,554,069</u>	<u>\$ 896,398</u>	<u>\$ 12,071,253</u>	<u>\$ 385,934</u>	<u>\$ 267,216</u>	<u>\$ (632,218)</u>	<u>\$ 15,542,652</u>
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts Payable and Accrued Liabilities	\$ 86,007	\$ 98,320	\$ -	\$ -	\$ 63,818	\$ -	\$ 248,145
Line of Credit	-	350,000	-	-	-	-	350,000
Intercompany Accounts Payable	-	272,109	-	73,900	257,422	(603,431)	-
Deferred Revenue	-	311	57,211	-	-	-	57,522
Bonds Payable, Current Portion	-	-	220,000	-	-	-	220,000
Deferred Rent Liability, Current Portion	13,158	15,629	-	13,229	-	(28,787)	13,229
Notes Payable, Current Portion	-	-	-	136,330	-	-	136,330
Total Current Liabilities	<u>99,165</u>	<u>736,369</u>	<u>277,211</u>	<u>223,459</u>	<u>321,240</u>	<u>(632,218)</u>	<u>1,025,226</u>
LONG-TERM LIABILITIES							
Bonds Payable, Net of Current Portion	-	-	12,507,156	-	-	-	12,507,156
Deferred Rent Liability, Long-Term	-	-	-	59,277	-	-	59,277
Notes Payable, Net of Current Portion	-	-	-	115,180	-	-	115,180
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>12,507,156</u>	<u>174,457</u>	<u>-</u>	<u>-</u>	<u>12,681,613</u>
Total Liabilities	99,165	736,369	12,784,367	397,916	321,240	(632,218)	13,706,839
NET ASSETS							
Without Donor Restriction	2,446,555	117,701	(713,114)	(11,982)	(54,024)	-	1,785,136
With Donor Restriction	8,349	42,328	-	-	-	-	50,677
Total Net Assets	<u>2,454,904</u>	<u>160,029</u>	<u>(713,114)</u>	<u>(11,982)</u>	<u>(54,024)</u>	<u>-</u>	<u>1,835,813</u>
Total Liabilities and Net Assets	<u>\$ 2,554,069</u>	<u>\$ 896,398</u>	<u>\$ 12,071,253</u>	<u>\$ 385,934</u>	<u>\$ 267,216</u>	<u>\$ (632,218)</u>	<u>\$ 15,542,652</u>

See accompanying Notes to Consolidated Financial Statements.

**CITY CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	<u>CLIC</u>	<u>TCS</u>	<u>LLC1</u>	<u>LLC2</u>	<u>CMO</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES, WITHOUT DONOR RESTRICTION							
State Revenue:							
State Aid	\$ 2,442,762	\$ 1,813,988	\$ -	\$ -	\$ -	\$ -	\$ 4,256,750
Other State Revenue	877,152	741,776	-	-	-	-	1,618,928
Federal Revenue:							
Grants and Entitlements	280,054	161,266	-	-	-	-	441,320
Local Revenue:							
In-Lieu Property Tax Revenue	986,295	832,797	-	-	-	-	1,819,092
Contributions	694,423	460,145	-	-	30,384	(359,406)	825,546
Investment Income	525	-	23,012	-	-	-	23,537
Other Revenue	25,283	25,998	767,081	414,805	281,123	(1,463,009)	51,281
Total Revenues	<u>5,306,494</u>	<u>4,035,970</u>	<u>790,093</u>	<u>414,805</u>	<u>311,507</u>	<u>(1,822,415)</u>	<u>9,036,454</u>
EXPENSES							
Program Services	3,173,511	3,121,130	589,968	392,925	-	(1,285,915)	5,991,619
Management and General	1,241,559	935,410	685,296	5,553	382,434	(536,500)	2,713,752
Fundraising	4,773	9,250	-	-	311	-	14,334
Total Expenses	<u>4,419,843</u>	<u>4,065,790</u>	<u>1,275,264</u>	<u>398,478</u>	<u>382,745</u>	<u>(1,822,415)</u>	<u>8,719,705</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION	886,651	(29,820)	(485,171)	16,327	(71,238)	-	316,749
NET ASSETS WITH DONOR RESTRICTIONS							
Other State Revenue	8,349	42,328	-	-	-	-	50,677
CHANGE IN NET ASSETS WITH DONOR RESTRICTION	<u>8,349</u>	<u>42,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,677</u>
CHANGE IN NET ASSETS	895,000	12,508	(485,171)	16,327	(71,238)	-	367,426
Net Assets, Beginning of Year	<u>1,559,904</u>	<u>147,521</u>	<u>(227,943)</u>	<u>(28,309)</u>	<u>17,214</u>	<u>-</u>	<u>1,468,387</u>
NET ASSETS, END OF YEAR	<u>\$ 2,454,904</u>	<u>\$ 160,029</u>	<u>\$ (713,114)</u>	<u>\$ (11,982)</u>	<u>\$ (54,024)</u>	<u>\$ -</u>	<u>\$ 1,835,813</u>

See accompanying Notes to Consolidated Financial Statements.

**CITY CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019**

	CLIC	TCS	LLC1	LLC2	CMO	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Change in Net Assets	\$ 895,000	\$ 12,508	\$ (485,171)	\$ 16,327	\$ (71,238)	\$ -	367,426
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:							
Depreciation	11,457	51,816	230,562	85,996	308	-	380,139
Amortization of Debt Issue Costs	-	-	(22,022)	-	-	-	(22,022)
Amortization of Bond Premium	-	-	82,369	-	-	-	82,369
Change in Operating Assets:							
Accounts Receivable - Federal and State	77,430	(20,522)	-	-	-	-	56,908
Accounts Receivable - Other	(1,348)	54,176	8,669	-	50,567	-	112,064
Intercompany Accounts Receivable	(21,258)	88,755	-	-	(92,488)	24,991	-
Prepaid Expenses and Other Assets	5,838	(39,756)	-	257,513	25,092	-	248,687
Deferred Rent Asset	-	-	(13,158)	(15,629)	-	28,787	-
Change in Operating Liabilities:							
Accounts Payable and Accrued Liabilities	(23,068)	36,514	-	-	(5,107)	-	8,339
Intercompany Accounts Payable	-	(27,502)	-	(88,755)	141,248	(24,991)	-
Deferred Rent Liability	(63,523)	15,629	-	46,929	-	(28,787)	(29,752)
Deferred Revenue	(5,546)	311	57,211	-	-	-	51,976
Net Cash Provided (Used) by Operating Activities	<u>874,982</u>	<u>171,929</u>	<u>(141,540)</u>	<u>302,381</u>	<u>48,382</u>	<u>-</u>	<u>1,256,134</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of Property, Plant, and Equipment	(34,174)	(199,261)	-	(255,933)	-	-	(489,368)
Net Cash Used by Investing Activities	<u>(34,174)</u>	<u>(199,261)</u>	<u>-</u>	<u>(255,933)</u>	<u>-</u>	<u>-</u>	<u>(489,368)</u>
CASH FLOWS FROM FINANCING ACTIVITIES							
Repayments of Debt	-	-	(200,000)	(43,456)	-	-	(243,456)
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(43,456)</u>	<u>-</u>	<u>-</u>	<u>(243,456)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	840,808	(27,332)	(341,540)	2,992	48,382	-	523,310
Cash and Cash Equivalents, Beginning of Year	<u>657,534</u>	<u>142,601</u>	<u>1,285,957</u>	<u>-</u>	<u>54,823</u>	<u>-</u>	<u>2,140,915</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,498,342</u>	<u>\$ 115,269</u>	<u>\$ 944,417</u>	<u>\$ 2,992</u>	<u>\$ 103,205</u>	<u>\$ -</u>	<u>2,664,225</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION							
Cash Paid for Interest	<u>\$ -</u>	<u>\$ 7,630</u>	<u>\$ 676,469</u>	<u>\$ 5,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>689,644</u>

See accompanying Notes to Consolidated Financial Statements.

**CITY CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services	Management and General	Fundraising	Eliminations	Total Expenses
Salaries and Wages	\$ 2,775,233	\$ 1,051,951	\$ -	\$ -	\$ 3,827,184
Pension Expense	346,904	70,149	-	-	417,053
Other Employee Benefits	357,119	130,582	-	-	487,701
Payroll Taxes	107,187	45,676	-	-	152,863
Management Fees	-	546,995	-	-	546,995
Legal Expenses	-	60,275	-	-	60,275
Accounting Expenses	-	23,121	-	-	23,121
Instructional Materials	286,701	-	-	-	286,701
Other Fees for Services	733,865	122,905	-	(281,123)	575,647
Advertising and Promotion Expenses	-	4,606	-	-	4,606
Office Expenses	147,562	103,974	-	-	251,536
Information Technology Expenses	42,437	6,525	-	-	48,962
Occupancy Expenses	1,442,635	321,742	-	(1,181,886)	582,491
Travel Expenses	-	21,618	-	-	21,618
Conference and Meeting Expenses	15,639	1,864	-	-	17,503
Interest Expense	-	689,644	-	-	689,644
Depreciation Expense	367,211	12,928	-	-	380,139
Insurance Expense	34,756	9,335	-	-	44,091
Other Expenses	620,285	26,362	14,334	(359,406)	301,575
Total Expense by Function	7,277,534	3,250,252	14,334	(1,822,415)	8,719,705
Eliminations	(1,285,915)	(536,500)	-	1,822,415	-
Total Expenses after Eliminations	\$ 5,991,619	\$ 2,713,752	\$ 14,334	\$ -	\$ 8,719,705

See accompanying Notes to Consolidated Financial Statements.

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

City Charter Schools (the School) is a non-profit, California public benefit corporation formed to operate public charter schools in Los Angeles, California. The organization is comprised of the Charter Management Organization (CMO), 4001 Venice LLC (LLC1), CCS Facilities LLC (LLC2), The City School (TCS) and the City Language Immersion Charter (CLIC). CCMS began serving students in grades 6 and 7 in August 2012. CCMS was closed as of June 30, 2016 and the School began to operate under the high school's charter under the name of The City School (TCS). CLIC was granted a charter in May 2013 and began serving students in Kindergarten and 2nd grade in September 2013.

The School's charters were granted under the sponsorship of the Los Angeles Unified School District (LAUSD), pursuant to the terms of the Charter Schools Act (The Act) of 1992, as amended. The Act authorizes the formation of charter schools for the purpose of developing new, innovative, and more flexible ways of educating children within the public school system. The School is funded principally through State of California public education monies received through the California Department of Education.

Principles of Consolidation

The consolidated financial statements include the accounts of City Charter Schools and its single member limited liability company subsidiaries: 4001 Venice LLC and CCS Facilities LLC. All material intercompany transactions have been eliminated.

Basis of Accounting

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

Basis of Presentation

The accompanying consolidated 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.

Use of Estimates

The preparation of consolidated 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.

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Restricted Cash and Cash Equivalents

The School holds restricted cash and cash equivalents related to bond reserve requirements.

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. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

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 and release 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.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions

Accounts Receivable

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2019. Management believes that all receivables are fully collectible; therefore, no provisions for uncollectible accounts were recorded.

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 5 to 50 years.

Revenue Recognition

Amounts received from the California Department of Education are 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 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.

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 are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability of the School. The entire compensated absences liability is reported on the consolidated statement of financial position. Employees of the School accrue vacation days at a rate based on years of service not to exceed 7.5 days.

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. 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.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The School also adopted ASU 2016-08 Statement of Cash Flows and have adjusted the presentation in these financial statements accordingly.

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Evaluation of Subsequent Events

The School has evaluated subsequent events through October 24, 2019, the date these consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

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

Cash and Cash Equivalents	\$ 1,835,600
Accounts Receivable	1,009,876
Total	\$ 2,845,476

As part of our liquidity management plan, we invest cash in excess of daily requirements in short term investments, CDs, and money market funds.

NOTE 3 CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). 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 consolidated financial statements is 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, 2019 was \$380,139.

The components of property, plant, and equipment as of June 30, 2019 are as follows:

Building	\$ 11,528,081
Leasehold Improvements	623,207
Equipment, Furniture and Fixtures	157,292
Total	12,308,580
Less: Accumulated Amortization	(615,459)
Total Property, Plant, and Equipment	\$ 11,693,121

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM DEBT

Line of Credit

The School has a revolving line of credit with Pacific Western Bank for \$350,000 that carries a variable interest rate, currently set at 2.15%. The line of credit expires in October 2020. There was a balance of \$350,000 outstanding on this line of credit as of June 30, 2019.

Notes Payable

CCCS Facilities LLC (LLC2) has a note payable with Excellent Education Development for \$408,000 for leasehold improvements of property for the School in Los Angeles, California. The note carries an annual interest rate of 1.5% and matures on May 1, 2021. At June 30, 2019 the balance on this note is \$251,510.

Bonds Payable

In September 2016, 4001 Venice LLC (the LLC) obtained financing through the California Municipal Finance Authority (CMFA). The \$12,455,000 loan is to be applied to the cost of acquisition and construction of property for the School in Los Angeles, California.

The loan agreement requires the School to comply with various covenants, conditions, and restrictions, including maintaining certain financial ratios. The bonds bear interest rates ranging from 3.75 to 5.00%. The LLC is required to maintain a bond reserve cash account equal to the bond reserve requirement is currently \$828,625. This amount is shown as restricted cash and cash equivalents on the consolidated statement of financial position.

Bonds payable are reported on the statement of financial position including a premium of \$792,794. The premium is being amortized over the life of the bonds. Amortization of the bonds premium for the year ended June 30, 2019 was \$22,022.

Future maturities of notes and bonds payable is as follows:

<u>Year Ending June 30,</u>		
2020	\$	356,330
2021		275,180
2022		165,000
2023		175,000
2024		185,000
Thereafter		11,305,000
Total Future Maturities		12,461,510
Unamortized Bond Premium		726,728
Unamortized Cost of Issuance		(209,572)
Total Notes and Bonds Payable	\$	12,978,666

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 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.

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, 2018, total STRS plan net assets are \$225 billion, the total actuarial present value of accumulated plan benefits is \$374 billion, contributions from all employers totaled \$4.9 billion, and the plan is 64% 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, 2019 was 16.28% 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>
2017	\$ 329,770	100 %
2018	\$ 366,993	100 %
2019	\$ 417,053	100 %

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 OPERATING LEASES

The School has a long-term lease for its middle school's mobile facilities in Los Angeles that commenced on September 1, 2018 and expires September 1, 2022. Lease expense under this agreement for the year ended June 30, 2019 was \$83,754.

The School signed a long-term lease for its middle school facilities in Los Angeles that commenced on June 1, 2018 and expires June 30, 2022. Due to an uneven payment schedule, lease expense is accrued on a straight-line basis over the life of the lease. For the year ended June 30, 2019, total lease expense was \$306,929 and payments totaled \$260,000.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>		
2020	\$	412,728
2021		422,369
2022		432,299
2023		15,228
2024		-
Thereafter		-
Total		<u><u>\$ 1,282,624</u></u>

NOTE 8 FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function(s). Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, professional services, office expenses, information technology, and insurance which are allocated on the basis of estimates of time and effort. Additionally, management and consulting fees were allocated 50% program and 50% management and general based on estimated costs for compliance and reporting requirements.

NOTE 9 NET ASSETS WITH DONOR RESTRICTION

The School's net assets with donor restriction at June 30, 2019 consists of the following:

Net Assets With Donor Restriction		
Purpose Restrictions		
Classified School Employees PD Grant	\$	5,229
Low-Performing Students Block Grant		45,448
Total Net Assets With Donor Restriction		<u><u>\$ 50,677</u></u>

**CITY CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 CONTINGENCIES

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.

SUPPLEMENTARY INFORMATION

**CITY CHARTER SCHOOLS
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2019**

City Charter Schools (the School) is a nonprofit, California public benefit corporation that manages the following:

City Language Immersion Charter (CLIC) charter number 1538 – Established in 2013
City High School (TCS) charter number 1710 – Established in 2015

The Board of Directors and the Administrators as of the year ended June 30, 2019 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires (2 year term)</u>
Meredith Esarey	Chair	February 2021
Jessica Shaham	Vice Chair	February 2021
Jenna Flexner	Secretary	March 2021
Kelli Bernard	Member	March 2021
Kenneth Billups	Member	August 2020
Maria Gabriel	Member	March 2021
Rebecca George	Member	March 2021
Paulina Lopez	Member	March 2020
Rebecca Mais	Member	February 2020
Joseph Crowley	Member	August 2020

ADMINISTRATORS

Valerie Bramah	Executive Director
Sheri Werner	TCS Founding Principal
Raul Alarcon	CLIC Founding Principal

See the Independent Auditors' Report and the notes to supplementary information.

**CITY CHARTER SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2019**

	Instructional Minutes		Traditional Calendar Days	Status
	Requirement	Actual		
<u>CLIC</u>				
Kindergarten	36,000	49,545	180	In compliance
Grade 1	50,400	50,530	180	In compliance
Grade 2	50,400	50,530	180	In compliance
Grade 3	50,400	56,790	180	In compliance
Grade 4	54,000	56,745	180	In compliance
Grade 5	54,000	56,745	180	In compliance
<u>TCS</u>				
Grade 6	54,000	65,900	181	In compliance
Grade 7	54,000	65,900	181	In compliance
Grade 8	54,000	65,900	181	In compliance

See the Independent Auditors' Report and the notes to supplementary information.

**CITY CHARTER SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2019**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
<u>CLIC</u>				
Grades TK/K-3	272.91	273.30	272.01	272.70
Grades 4-5	114.17	114.41	113.95	114.32
Subtotal	<u>387.08</u>	<u>387.71</u>	<u>385.96</u>	<u>387.02</u>
<u>TCS</u>				
Grade 6	109.65	109.65	110.96	110.96
Grades 7-8	217.72	217.72	215.56	215.56
Subtotal	<u>327.37</u>	<u>327.37</u>	<u>326.52</u>	<u>326.52</u>
ADA Totals	<u><u>714.45</u></u>	<u><u>715.08</u></u>	<u><u>712.48</u></u>	<u><u>713.54</u></u>

See the Independent Auditors' Report and the notes to supplementary information.

**CITY CHARTER SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

	CLIC	TCS
June 30, 2019 Annual Financial Report Fund Balances (Net Assets)	\$ 2,454,904	\$ 157,650
Adjustments and Reclassifications:		
Increase (Decrease) of Fund Balance (Net Assets):		
Accounts Receivable - Other	-	2,379
Net Adjustments and Reclassifications	-	2,379
June 30, 2019 Audited Financial Statement Fund Balances (Net Assets)	\$ 2,454,904	\$ 160,029

See the Independent Auditors' Report and the notes to supplementary information.

**CITY CHARTER SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

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 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 consolidated 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
City Charter Schools
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 of America, the consolidated financial statements of City Charter Schools (the School), a nonprofit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
October 24, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
City Charter Schools
Los Angeles, California

We have audited City Charter Schools's (the School) compliance with the types of compliance requirements described in the *2018-2019 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, 2019. 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 of America, and the *2018-2019 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	Not applicable
Before and After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

<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 Charter Schools:	Not applicable
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	Yes

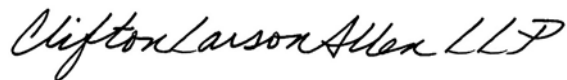
¹ Nonclassroom ADA was under the threshold that required testing.

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, 2019.

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 *2018-2019 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
October 24, 2019

**CITY CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards* or the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**CITY CHARTER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

2018-001 Unduplicated Local Control Funding Formula Pupil Counts 40000

Condition:

Based on the testing performed on the “1.18—FRPM/English Learner/Foster Youth—Student List”, we discovered that the School did not have any students in the “NSLP Program” column. After discussing these findings with the staff, we were provided with revised CALPADS reports after their staff completed their review.

From these revised CALPADS reports, we selected our sample using the criteria stated above and found no exceptions.

Recommendation:

We recommend that the School employ a standardized monitoring process to ensure that reporting errors are minimized and corrections made on a timely basis.

Status: Implemented

