



CRETE ACADEMY

AUDIT REPORT

JUNE 30, 2019

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

Crete Academy (Charter No. 1854)

FINANCIAL SECTION

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

SUPPLEMENTARY INFORMATION SECTION

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

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
 Financial Statements Performed in Accordance with *Government Auditing Standards* 21
Report on State Compliance 23

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Crete Academy
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Crete Academy (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 Crete Academy 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 1O to the financial statements, in 2018-19 Crete Academy 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 Crete Academy 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 November 26, 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
November 26, 2019

CRETE ACADEMY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current assets

Cash and cash equivalents	\$ 70,707
Accounts receivable	<u>323,977</u>
Total current assets	<u>394,684</u>

Capital assets

Property and equipment	168,165
Less accumulated depreciation	<u>(56,699)</u>
Capital assets, net	<u>111,466</u>
Total Assets	<u>\$ 506,150</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 198,812
Loans payable	<u>284,892</u>
Total liabilities	<u>483,704</u>

Net assets

Without donor restrictions	11,471
With donor restrictions	<u>10,975</u>
Total net assets	<u>22,446</u>
Total Liabilities and Net Assets	<u>\$ 506,150</u>

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

**CRETE ACADEMY
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	\$ 1,256,687	\$ -	\$ 1,256,687
Federal revenues	193,205	-	193,205
Other state revenues	211,116	975	212,091
Total federal and state support and revenues	<u>1,661,008</u>	<u>975</u>	<u>1,661,983</u>
Local support and revenues			
Payments in lieu of property taxes	392,142	-	392,142
Grants and donations	54,600	10,000	64,600
Other local revenues	35,921	-	35,921
Total local support and revenues	<u>482,663</u>	<u>10,000</u>	<u>492,663</u>
Total Support and Revenues	<u>2,143,671</u>	<u>10,975</u>	<u>2,154,646</u>
EXPENSES			
Program services	1,439,767	-	1,439,767
Supporting services			
Management and general	993,026	-	993,026
Fundraising	907	-	907
Total Expenses	<u>2,433,700</u>	<u>-</u>	<u>2,433,700</u>
CHANGE IN NET ASSETS	(290,029)	10,975	(279,054)
Net Assets - Beginning	<u>301,500</u>	<u>-</u>	<u>301,500</u>
Net Assets - Ending	<u>\$ 11,471</u>	<u>\$ 10,975</u>	<u>\$ 22,446</u>

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

**CRETE ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services	Management and General	Fundraising	Total
EXPENSES				
Personnel expenses				
Certificated salaries	\$ 394,763	\$ 197,753	\$ -	\$ 592,516
Non-certificated salaries	171,583	287,098	-	458,681
Payroll taxes	49,853	42,679	-	92,532
Other employee benefits	35,299	30,220	-	65,519
Total personnel expenses	651,498	557,750	-	1,209,248
Non-personnel expenses				
Books and supplies	277,335	10,193	-	287,528
Insurance	12,176	10,423	-	22,599
Facilities	190,621	173,463	-	364,084
Professional services	206,479	136,684	907	344,070
Interest expense	-	13,089	-	13,089
Depreciation	-	32,051	-	32,051
Payments to authorizing agency	93,301	16,488	-	109,789
Other operating expenses	8,357	42,885	-	51,242
Total non-personnel expenses	788,269	435,276	907	1,224,452
Total Expenses	\$ 1,439,767	\$ 993,026	\$ 907	\$ 2,433,700

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

**CRETE ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (279,054)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	32,051
(Increase) decrease in operating assets	
Accounts receivable	124,302
Prepaid expenses	9,710
Increase (decrease) in operating liabilities	
Accounts payable	<u>19,342</u>
Net cash provided by (used in) operating activities	<u>(93,649)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	<u>(39,991)</u>
Net cash provided by (used in) investing activities	<u>(39,991)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Draws on loans payable	75,000
Principal payments on loans payable	<u>(96,884)</u>
Net cash provided by (used in) financing activities	<u>(21,884)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(155,524)
Cash and cash equivalents - Beginning	<u>226,231</u>
Cash and cash equivalents - Ending	<u>\$ 70,707</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 13,089</u>

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

**CRETE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Crete Academy (the “Charter”) was formed as a nonprofit public benefit corporation on April 28, 2016 for the purpose of operating as a California public school located in Los Angeles, California. The Charter was approved by the State Board of Education in March 2017 as California Charter No. 1854. Crete Academy’s mission is to deliver an educational program to students who are homeless, living in poverty, that will meet their physical, mental and emotional needs, while developing strong character and critical thinking skills so that each child is prepared for college and beyond. Classes began in August 2017 for students in grades transitional kindergarten through sixth.

Crete Academy is authorized to operate as a charter school through the Los Angeles Unified School District (the “authorizing agency” or “LAUSD”). On November 15, 2016, the Board of Directors of LAUSD approved a charter petition for the Charter for a five-year term beginning July 1, 2017 and expiring on June 30, 2022. 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, Crete Academy 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.

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 payments to Crete Academy. Revenues are recognized by the Charter when earned.

H. Cash and Cash Equivalents

Crete Academy 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

Crete Academy has adopted a policy to capitalize asset purchases over \$2,500. 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

Crete Academy 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. 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.

P. 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.

CRETE ACADEMY
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 \$70,707 held in non-interest bearing bank accounts.

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. Crete Academy 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, Crete Academy’s bank balance was not exposed to custodial credit risk as there were no deposits over \$250,000 in accounts at any one insured bank.

NOTE 3 – ACCOUNTS RECEIVABLE

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

Local control funding sources	\$	132,096
Federal sources		44,347
Other state sources		106,990
In-lieu property taxes		40,056
Other local sources		488
Total Accounts Receivable, net	\$	<u>323,977</u>

NOTE 4 – 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				
Building and leasehold improvements	\$ -	\$ 39,991	\$ -	\$ 39,991
Furniture and fixtures	28,556	-	-	28,556
Computer equipment	15,370	-	-	15,370
Transportation equipment	84,248	-	-	84,248
Total property and equipment	<u>128,174</u>	<u>39,991</u>	<u>-</u>	<u>168,165</u>
Less accumulated depreciation	(24,648)	(32,051)	-	(56,699)
Capital Assets, net	\$ 103,526	\$ 7,940	\$ -	\$ 111,466

NOTE 5 – ACCOUNTS PAYABLE

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

Due to authorizing agency	\$	13,832
Deferred summer compensation		13,913
Salaries and benefits		44,735
Credit card liability		47,830
Other vendor payables		78,502
Total Accounts Payable	\$	<u>198,812</u>

CRETE ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 6 – LOANS PAYABLE

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

	Balance			Balance
	July 1, 2018	Draws	Payments	June 30, 2019
Charter revolving loan	\$ 233,334	\$ -	\$ 83,330	\$ 150,004
Shuttle loan #1	37,523	-	6,548	30,975
Shuttle loan #2	35,919	-	5,841	30,078
Line of credit - Wells Fargo	-	75,000	1,165	73,835
Total Loans Payable	\$ 306,776	\$ 75,000	\$ 96,884	\$ 284,892

Charter Revolving Loan

On June 16, 2017, the Charter was approved to borrow \$250,000 through the Charter Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The loan is to be repaid over a five-year period ending March 2022. The revolving note bears an annualized interest rate equal to the “prime rate” of 0.98%. During the fiscal year ended June 30, 2019, the Charter made payments of \$85,122, which included \$83,330 of principal and \$1,792 of interest expense. As of June 30, 2019, the outstanding balance on the loan was \$150,004. Repayment obligations on the charter revolving loan are as follows:

Fiscal Year Ending June 30,	Payment
2020	\$ 50,000
2021	50,000
2022	50,004
Total	\$ 150,004

Shuttle Loan #1 and #2

In September 2017, the Charter entered into two separate loan agreements for the purchase of two (2) shuttle vans. The shuttle vans are utilized for student transportation. The corresponding assets are recorded within capital assets as transportation equipment. Shuttle #1 was purchased for \$42,746 and the cost of shuttle #2 was \$41,505. Loans for shuttle #1 and shuttle #2 include an annual interest rate of 4.86% for six-year terms with minimum monthly payments of \$685.60 and \$665.74, respectively. Future repayment obligations on the shuttle loans are as follows:

Fiscal Year Ending June 30,	Shuttle #1	Shuttle #2	Total
2020	\$ 8,227	\$ 7,989	\$ 16,216
2021	8,227	7,989	16,216
2022	8,227	7,989	16,216
2023	8,227	7,989	16,216
2024	1,371	1,331	2,702
Minimum Lease Payments	34,279	33,287	67,566
Less: Interest	(3,304)	(3,209)	(6,513)
Total	\$ 30,975	\$ 30,078	\$ 61,053

Line of Credit

In June 2019, the Charter was approved for a line of credit with Wells Fargo financial institution for \$75,000. During the fiscal year ended June 30, 2019, the Charter had \$75,000 in draws and made payments of \$1,165. As of June 30, 2019, the liability associated with the line of credit was \$73,835.

CRETE ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 7 – NET ASSETS

As of June 30, 2019, the Charter’s net assets with and without donor restrictions consisted of the following:

Restricted state funding sources	
Classified employee professional development	\$ 975
Restricted by local donor sources	
Enterprise community partner grant	10,000
Total Net Assets with Donor Restrictions	<u>\$ 10,975</u>
Net investment in capital assets	\$ 111,466
Required cash reserve (LAUSD 5% of expenses)	<u>121,685</u>
Undesignated	<u>(221,680)</u>
Total Net Assets without Donor Restrictions	<u>\$ 11,471</u>

In accordance with Crete Academy’s charter petition with the Los Angeles Unified School District, the Charter is required to maintain cash reserves equal to five percent of total expenditures.

NOTE 8 – 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. Crete Academy maintains a line of credit (as mentioned in Note 6) which has been drawn upon to ensure financial assets are available as general expenditures and other obligations become due.

Financial assets	
Cash and cash equivalents	\$ 70,707
Accounts receivable, current portion	<u>323,977</u>
Total Financial Assets, excluding noncurrent	<u>\$ 394,684</u>
Contractual or donor-imposed restrictions	
Cash restricted by others for specific uses	(10,975)
LAUSD	<u>(121,685)</u>
Financial Assets available to meet cash needs for expenditures within one year	<u>\$ 262,024</u>

CRETE ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 9 – EMPLOYEE RETIREMENT PLANS

In accordance with *California Education Code* 47605, charter schools have the option of participating in certain multiple-employer defined benefit pension plans maintained by agencies of the State of California if an election to participate is specified within the charter petition. Within the current charter petition, the Charter has not made the election and therefore, does not participate in the California State Teachers' Retirement System (CalSTRS) or the California Public Employees' Retirement System (CalPERS) pension programs. The Charter retains the option to elect to participate in CalSTRS at a future date.

As established by federal law, all public-sector employees must be covered by social security or an alternative plan if an existing employer retirement plan such as CalSTRS and CalPERS is not available. The Charter offers both social security and a 403(b) employee funded plan. All employees are covered by Medicare and social security and all full-time employees are eligible to participate in the 403(b) plan. A participant of the 403(b) plan may make an election to defer compensation and have it contributed to this plan. During the fiscal year ended June 30, 2019, the Charter made payments totaling \$78,704 for Medicare and social security and paid \$30,220 toward other employee benefits.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Governmental Funds

Crete Academy 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.

Joint Powers Agency (JPA)

During the year ended June 30, 2019, Crete Academy participated in a joint venture with CharterSafe, previously the California Charter Schools Joint Powers Authority. CharterSafe arranges for insurance coverage related to property, general liability, automobile, worker's compensation, and other miscellaneous liability coverage specific to operation of a charter school. The relationship between the Charter and the JPA is such that the JPA is not financially inter-related to the Charter for financial reporting purposes. Premiums paid to Charter Safe totaled \$33,011 for the year ended June 30, 2019.

Operating Leases

5125 Crenshaw Boulevard

On February 22, 2017, Crete Academy entered into a lease agreement with All Souls Christian Center (the "Lessor") to occupy space located at 5125 South Crenshaw Boulevard in Los Angeles, California. The two-year term covered by the lease agreement commenced on July 1, 2017 and ended June 30, 2019. The agreement calls for base rent of \$8,500 per month and a security deposit of \$8,500.

During the first year of school, repairs to the facility totaling \$8,550 were necessary for occupancy and although the responsibility of the Lessor, the Charter covered the cost and both parties agreed that future rent would be reduced by \$500 until the balance due from the Lessor has been fully repaid. Additionally, the Lessor agreed to waive the security deposit requirement stated in the lease.

During the fiscal year ended June 30, 2019, rent expense attributed to this facility lease agreement amounted to \$102,000.

CRETE ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued)

6103 Crenshaw Boulevard

On July 12, 2018 Crete Academy entered into a lease agreement to occupy space located at 6103 Crenshaw Boulevard in Los Angeles, California. The facility is utilized by the Charter for instructional services in order to meet the educational goals established by the Charter. The two-year term covered by the lease agreement commenced on August 1, 2018 and will end July 31, 2020. The agreement calls for base rent of \$13,000 per month.

During the fiscal year ended June 30, 2019, rent expense attributed to this facility lease agreement amounted to \$143,000. Future minimum lease payments are \$156,000 and \$13,000 for fiscal years ending June 30, 2020 and June 30, 2021 respectively.

NOTE 11 – RELATED PARTY TRANSACTIONS

Authorizing Agency

The Charter makes payments to the authorizing agency, LAUSD, to provide required services for special education and other purchased services in addition to fees for oversight. Fees associated with oversight consisted of one percent of revenue from local control funding formula sources. Total fees paid to the authorizing agency for oversight amounted to \$16,488 and total payments for special education and other services amounted to \$93,301 for the fiscal year ending June 30, 2019.

Interested Parties

The Executive Director and Founder, Hattie Arrington Mitchell is married to the Chief Operations Officer and Co-Founder, Mr. Brett Mitchell.

During the initial years of operation, the Executive Director and Founder, Ms. Arrington Mitchell, dedicated time and effort and covered certain costs related to the start-up of the Charter with personal funds. These start-up costs included various expenses such as legal and other professional consulting as well as marketing and outreach that were necessary in establishing the charter school. During the fiscal year ended June 30, 2019, reimbursable expenses of \$63,971 and salaries and wages of \$60,000 were repaid to the Executive Director and Chief Operations Officer for costs incurred in the 2016-17 fiscal year.

NOTE 12 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Crete Academy 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.

NOTE 13 – SUBSEQUENT EVENTS

Crete Academy has evaluated subsequent events for the period from June 30, 2019 through November 26, 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

**CRETE ACADEMY
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2019**

Crete Academy, located in Los Angeles, California, was formed as a nonprofit public benefit corporation on April 28, 2016 and approved by the State Board of Education in March 2017. The Charter was authorized to operate as a charter school by the Los Angeles Unified School District. Classes began in August 2017 for grades TK through 6. During 2018-19, the Charter served approximately 171 students in grades TK to 6. Crete Academy's charter number is 1854.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Alexander Robinson, JD	Board President	August 2020
Ursula Worsham, M.S and Ed.D.	Secretary	November 2020
Sergio G. Martus, MPP and MBA	Treasurer	November 2020
Carson Bruno, MPP	Member	April 2020
Dennis Johnson	Member	August 2020
Archana Patel	Member	September 2020

ADMINISTRATION

Hattie Mitchell
Executive Director

Brett Mitchell
Chief Operations Officer

**CRETE ACADEMY
 SCHEDULE OF AVERAGE DAILY ATENDANCE
 FOR THE YEAR ENDED JUNE 30, 2019**

	Second Period Report	Annual Report
<i>Certificate No.</i>	<u>3F0DF044</u>	<u>E7D0E08D</u>
	<u>Classroom-Based</u>	
Grade Span		
Kindergarten* through third	108.12	108.12
Fourth through sixth	<u>46.03</u>	<u>45.03</u>
Total Average Daily Attendance - Classroom-Based	<u>154.15</u>	<u>153.15</u>

*Includes Transitional Kindergarten (TK)

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

**CRETE ACADEMY
 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
Kindergarten*	36,000	67,920	186	Complied
Grades 1 through 3	50,400	66,600	186	Complied
Grades 4 through 6	54,000	67,530	186	Complied

*Includes Transitional Kindergarten (TK)

**CRETE ACADEMY
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.

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

Crete Academy 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 Crete Academy 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
Crete Academy
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 Crete Academy (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 November 26, 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
November 26, 2019

REPORT ON STATE COMPLIANCEIndependent Auditors' Report

To the Board of Directors of
Crete Academy
Los Angeles, California

Report on State Compliance

We have audited Crete Academy'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 Crete Academy'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 Crete Academy'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 Crete Academy'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 Crete Academy's compliance with those requirements.

Opinion on State Compliance

In our opinion, Crete Academy 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 below 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 Crete Academy’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	Not applicable
After/Before School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	Not applicable
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes



San Diego, California
November 26, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CRETE ACADEMY
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>

**CRETE ACADEMY
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.

**CRETE ACADEMY
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.

**CRETE ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings and questioned costs during 2017-18.