

**LAYC CAREER ACADEMY
PUBLIC CHARTER SCHOOL**

**Financial Statements and Supplemental Schedule
Together with Reports of Independent Public Accountants**

For the Years Ended June 30, 2017 and 2016



SB & COMPANY, LLC
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JUNE 30, 2017 AND 2016

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Trustees
LAYC Career Academy
Public Charter School

Report on the Financial Statements

We have audited the accompanying statements of financial position of the LAYC Career Academy Public Charter School (the Academy) as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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 controls 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 audits. We conducted our audits 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 auditing standards established pursuant to the District of Columbia School Reform Act, Public Law No. 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix)(1996) and the D.C. Official Code 38-1802.04(ii)(B) (2001, as amended). 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 controls. 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.



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Opinion

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 January 12, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Academy's internal control over financial reporting and compliance.

Washington, DC
January 12, 2018

A handwritten signature in black ink that reads "SB & Company, LLC".

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Statements of Financial Position As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,636,648	\$ 1,432,881
Due from LAYC, net	81,141	79,841
Other receivables	-	19,427
Prepaid expenses	53,330	49,335
Furniture and equipment, net	118,807	154,195
Security deposit	70,000	70,000
Total Assets	<u>\$ 1,959,926</u>	<u>\$ 1,805,679</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 345,379	\$ 191,062
Deferred revenue	50,000	-
Total Liabilities	<u>395,379</u>	<u>191,062</u>
Net Assets		
Unrestricted	1,564,547	1,607,236
Temporarily restricted	-	7,381
Total Net Assets	<u>1,564,547</u>	<u>1,614,617</u>
Total Liabilities and Net Assets	<u>\$ 1,959,926</u>	<u>\$ 1,805,679</u>

The accompanying notes are an integral part of these financial statements.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Per pupil allocation	\$ 3,063,450	\$ 3,187,167
DC facilities allowance	577,940	596,684
Federal grants	40,729	61,950
Grants and contributions	224,021	38,786
Other	5,034	13,801
Total Revenue	<u>3,911,174</u>	<u>3,898,388</u>
Net assets released from restrictions	7,381	280,068
Total Revenue and Support	<u>3,918,555</u>	<u>4,178,456</u>
Expenses		
Program Services	3,326,865	2,846,177
Supporting Services:		
General and administrative	616,378	568,944
Fundraising	18,001	15,479
Total Supporting Services	<u>634,379</u>	<u>584,423</u>
Total Expenses	<u>3,961,244</u>	<u>3,430,600</u>
Change in Unrestricted Net Assets	<u>(42,689)</u>	<u>747,856</u>
TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	(7,381)	(280,068)
Change in Temporarily Restricted Net Assets	<u>(7,381)</u>	<u>(280,068)</u>
Changes in net assets	(50,070)	467,788
Net assets, beginning of year	<u>1,614,617</u>	<u>1,146,829</u>
Net Assets, End of Year	<u>\$ 1,564,547</u>	<u>\$ 1,614,617</u>

The accompanying notes are an integral part of these financial statements.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Statements of Cash Flows For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (50,070)	\$ 467,788
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	92,379	83,890
Effect of changes in non-cash operating assets and liabilities:		
Due from LAYC, net	(1,300)	(104,073)
Other receivables	19,427	(19,427)
Prepaid expenses	(3,995)	(144)
Accounts payable and accrued expenses	154,317	(89,000)
Deferred revenue	50,000	-
Net Cash from Operating Activities	<u>260,758</u>	<u>339,034</u>
 Cash Flows from Investing Activities		
Payments for purchases of furniture and equipment	<u>(56,991)</u>	<u>(142,593)</u>
 Net increase in cash	203,767	196,441
Cash, beginning of year	<u>1,432,881</u>	<u>1,236,440</u>
Cash, End of Year	<u>\$ 1,636,648</u>	<u>\$ 1,432,881</u>

The accompanying notes are an integral part of these financial statements.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

1. ORGANIZATION AND PROGRAM

The LAYC Career Academy Public Charter School (the Academy) was incorporated in the District of Columbia in December 2011, and opened its doors in September 2012. This is the fourth public charter school founded by the Latin American Youth Center (LAYC). The innovative educational model offers students ages 16-24 the opportunity to prepare for and pass the GED and prepare for a career as an A+ certified IT professional or a medical assistant. The Academy's students are able to start their college education by completing six college credits (the equivalent of two AP classes) through LAYC's partnership with the Bard College and the Community College of the District of Columbia.

LAYC is the founder of the Academy and makes payments on behalf of the Academy and does not necessarily allocate all such costs to the Academy. Therefore, the financial results of the Academy may not be reflective as if it were a standalone entity.

Executive management and certain board members of LAYC serve on the Board of Trustees of the Academy.

On July 1, 2012, the Academy entered into a contract with the District of Columbia Public Charter School Board (the Board), granting the Academy a charter for the establishment of a public charter school in Washington, DC. The charter expires on June 30, 2027. The Board has the authority to revoke the charter for violations of applicable laws and conditions, terms and procedures set forth in the charter. The Academy's current charter provides for enrollment of up to 150 students in its first academic year and no more than 200 in the subsequent four academic years. Under the provisions of the contract, the Board is to make annual payments to the Academy for services provided to the students based on the number of students attending the Academy each year. The Academy is and shall remain a District of Columbia nonprofit organization in accordance with the District of Columbia Nonprofit Corporation Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the Academy have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture and Equipment, Net

Furniture and equipment valued in excess of \$1,000, with an anticipated useful life greater than one year, are capitalized and recorded at cost if purchased, or estimated fair market value as of the date of gift, if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. All capitalized assets as of June 30, 2017 and 2016, consisted of furniture and equipment with a useful life of three years.

Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose use by the Academy have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets. As of June 30, 2016, temporarily restricted net assets were available for training in the amount of \$7,381. There were no temporarily restricted net assets as of June 30, 2017.

Permanently restricted net assets are those that are restricted by donors to be maintained by the Academy in perpetuity. There were no permanently restricted net assets as of June 30, 2017 and 2016.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded when pledged and classified as unrestricted, temporarily or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Academy receives a student allocation from the District of Columbia as well as Federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allotment. The Academy recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as deferred revenue in the accompanying statements of financial position. Revenue from other government sources are recognized as earned.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Academy.

Income Taxes

The Academy is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable District of Columbia income tax laws.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Academy performed an evaluation of uncertain tax positions for the year ended June 30, 2017, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status.

For the year ended June 30, 2017, the statute of limitations for fiscal years 2015 through 2017 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the Academy files tax returns. It is the Academy's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, *Leases*, that creates a singular reporting model for leases. This standard will be effective for periods beginning after December 15, 2019. In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, that provides updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2017 and December 15, 2018, respectively. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to assess an entity's ability to continue as a going concern. Management should evaluate whether conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. It is effective for annual reporting periods ending after December 15, 2016. Management implemented this pronouncement in fiscal year 2017. It did not materially impact the financial statements.

Subsequent Events

The Academy evaluated the accompanying financial statements for subsequent events and transactions through January 12, 2018, the date the financial statements were available for issue, and has determined that no material subsequent events have occurred, other than those disclosed in Note 4, that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. PROPERTY AND EQUIPMENT, NET

As of June 30, 2017 and 2016, furniture and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Life</u>
Furniture and equipment	\$ 357,108	\$ 300,117	3 years
Less: accumulated depreciation	<u>238,301</u>	<u>145,922</u>	
Furniture and Equipment, Net	<u><u>\$ 118,807</u></u>	<u><u>\$ 154,195</u></u>	

Depreciation expense was \$92,379 and \$83,890, for the years ended June 30, 2017 and 2016, respectively.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

4. COMMITMENTS AND CONTINGENCIES

Grants

The Academy receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the Academy. The Academy's administration believes such disallowance, if any, would be immaterial.

The Academy receives a substantial portion of its revenue from the District of Columbia. If a significant reduction in this revenue should occur, it may have a material effect on the Academy's programs.

During the years ended June 30, 2017 and 2016, the Academy earned revenue of \$3,682,119 and \$3,845,801, from the District of Columbia, which was 94% and 92%, respectively, of the total revenue and support, respectively. These amounts are reflected as per pupil allocation, DC facilities allowance, and Federal grants in the accompanying statements of activities and changes in net assets.

Operating Lease

The Academy leases space under a renewable five year lease that expired in August 2017. Rent expense included other occupancy related costs for the years ended June 30, 2017 and 2016 was \$659,488 and \$592,004, respectively. Subsequent to June 30, 2017, the Academy moved to a new facility. The base rent for the first year is \$537,500 which is paid in monthly payments of \$44,791. There will be a 1.5% increase each year, until July 31, 2020.

5. RELATED PARTY TRANSACTIONS

Management Fee

The Academy receives certain management and administrative services from LAYC in return for a management fee. Under this agreement, the Academy is to pay LAYC a management fee for the services it provides in the amount of 12% of all funds the Academy receives, with the exception of facilities funds. As of the first academic year that the Academy reaches enrollment of 200 students, the management fee shall be reduced to 10%. The Academy has not reached enrollment of 200, therefore, the rate as of June 30, 2017 and 2016 was 12%. This fee is paid quarterly. The management fee was \$401,938 and \$384,507, for the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, the Academy recorded a net receivable from LAYC of \$81,141 and \$79,841, primarily for excess management fees paid to LAYC.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

5. RELATED PARTY TRANSACTIONS (continued)

Management Fee (continued)

Additionally, LAYC incurs certain costs on behalf of the Academy for certain payroll and other payroll and benefit related costs. These costs are reimbursed to LAYC by the Academy. During the year ended June 30, 2017, \$233,633 in other costs were reimbursed to LAYC, of which \$185,000, was recorded in accounts payable and accrued expenses as of June 30, 2017. There were no unpaid amounts as of June 30, 2016.

SUPPLEMENTARY INFORMATION

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Supplemental Schedule of Functional Expenses For the Year Ended June 30, 2017, with Comparative 2016 Totals

	2017				2016
	Program Services	General and Administrative	Fundraising	Total	Total
SALARIES, TAXES AND BENEFITS					
Salaries	\$ 1,623,548	\$ 116,730	\$ 9,800	\$ 1,750,078	\$ 1,373,214
Employee benefits	76,744	5,518	463	82,725	77,510
Payroll taxes	123,481	8,878	745	133,104	113,485
Total salaries, taxes and benefits	<u>1,823,773</u>	<u>131,126</u>	<u>11,008</u>	<u>1,965,907</u>	<u>1,564,209</u>
DIRECT STUDENT COSTS					
Contracted services, supplies and material	235,527	-	-	235,527	171,334
Transportation	23,723	-	-	23,723	47,582
Food services	71,509	-	-	71,509	50,339
Client training and education	13,567	-	-	13,567	12,775
Total direct student costs	<u>344,326</u>	<u>-</u>	<u>-</u>	<u>344,326</u>	<u>282,030</u>
OCCUPANCY EXPENSES					
Space rental	611,807	43,988	3,693	659,488	592,004
Depreciation expense	85,700	6,162	517	92,379	83,890
Total occupancy expenses	<u>697,507</u>	<u>50,150</u>	<u>4,210</u>	<u>751,867</u>	<u>675,894</u>
OFFICE EXPENSES					
Professional fees	264,944	19,049	1,599	285,592	282,644
Management fees	-	401,938	-	401,938	384,587
Payroll processing fees	5,151	370	31	5,552	6,037
Postage and shipping	2,935	211	18	3,164	1,022
Office equipment	30,541	2,196	184	32,921	43,654
Telecommunications	14,322	1,030	86	15,438	15,184
Staff training	56,971	4,096	344	61,411	58,267
Insurance	26,575	1,911	160	28,646	21,921
Miscellaneous	59,820	4,301	361	64,482	95,151
Total office expenses	<u>461,259</u>	<u>435,102</u>	<u>2,783</u>	<u>899,144</u>	<u>908,467</u>
Total Expenses	<u>\$ 3,326,865</u>	<u>\$ 616,378</u>	<u>\$ 18,001</u>	<u>\$ 3,961,244</u>	<u>\$ 3,430,600</u>

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Supplemental Schedule of Functional Expenses
For the Year Ended June 30, 2016**

	2016			
	Program Services	General and Administrative	Fundraising	Total
SALARIES, TAXES AND BENEFITS				
Salaries	\$ 1,273,931	\$ 91,593	\$ 7,690	\$ 1,373,214
Employee benefits	71,906	5,170	434	77,510
Payroll taxes	105,280	7,569	636	113,485
Total salaries, taxes and benefits	<u>1,451,117</u>	<u>104,332</u>	<u>8,760</u>	<u>1,564,209</u>
DIRECT STUDENT COSTS				
Supplies and materials	171,334	-	-	171,334
Transportation	47,582	-	-	47,582
Food services	50,339	-	-	50,339
Client training and education	12,775	-	-	12,775
Total direct student costs	<u>282,030</u>	<u>-</u>	<u>-</u>	<u>282,030</u>
OCCUPANCY EXPENSES				
Space rental	549,202	39,487	3,315	592,004
Depreciation expense	77,825	5,595	470	83,890
Total occupancy expenses	<u>627,027</u>	<u>45,082</u>	<u>3,785</u>	<u>675,894</u>
OFFICE EXPENSES				
Professional fees	262,209	18,852	1,583	282,644
Management fees	-	384,587	-	384,587
Payroll processing fees	5,600	403	34	6,037
Postage and shipping	948	68	6	1,022
Office equipment	40,498	2,912	244	43,654
Telecommunications	14,086	1,013	85	15,184
Staff training	54,055	3,886	326	58,267
Insurance	20,336	1,462	123	21,921
Miscellaneous	88,271	6,347	533	95,151
Total office expenses	<u>486,003</u>	<u>419,530</u>	<u>2,934</u>	<u>908,467</u>
Total Expenses	<u>\$ 2,846,177</u>	<u>\$ 568,944</u>	<u>\$ 15,479</u>	<u>\$ 3,430,600</u>



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

The Board of Trustees
LAYC Career Academy
Public Charter School

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 the LAYC Career Academy Public Charter School (the Academy), which comprise the statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2018.

Internal Controls over Financial Reporting

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

Our consideration of internal controls over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal controls* 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 controls, 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. We consider the deficiency described in the accompanying schedule of current year findings and questioned costs (2017-001) to be a material weakness.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy’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 controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy’s internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy’s internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
January 12, 2018

A handwritten signature in black ink that reads "SB & Company, LLC".

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Schedule of Current Year Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section I – Summary of Independent Public Accountants’ Results

Financial Statements

Type of independent public accountants’ report issued Unmodified

Internal controls over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? No

Section II – Financial Statement Findings

Reference Number: 2017-001

Type of Finding – Material Weakness over Financial Reporting

Criteria

In accordance with Uniform Grant Guidance, the School must maintain an adequate system of internal control over financial reporting in order to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

Condition

There are multiple separate accounts used to account for related party transactions. During the process of analyzing these account, we noted several adjustments recorded in the due to/from LAYC accounts for items such as overpayment of management fees and corrections of accounting errors. Our review identified an audit adjustment in the amount of \$49,999. The CFO has not been able to identify the expenses (or supporting invoices) that make up the balance for the amounts included in the due to LAYC account. The lack of review and analysis of this accounts during the year resulted additional time and analyses to before the financial statements could be finalized.

Cause

The Academy did not have internal controls in place for the timely review and analysis of the accounts used to record related party transactions.

Effect

The delay in completing account analyses for accounts payable could result in errors and irregularities, which may not be detected.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Schedule of Current Year Findings and Questioned Costs For the Year Ended June 30, 2017

Recommendation

We recommend that the Academy implement controls to ensure reconciliations and account analysis are completed and reviewed by appropriate supervisory personnel in a timely manner. The use of the multiple accounts created difficulties in reconciling the related party activity, which resulted in audit adjustments during the period. We recommend that the Academy implement a review process where the CFO provides monthly documentation that shows the activity from the last invoice, with outstanding balances and the current month's transactions with sufficient information to allow the Academy to verify the transactions and reconcile activity to the general ledger.

Questioned Costs

Unknown

Responsible Official's Response and Corrective Action Plan

Effective immediately, the Academy will work with its CFO in the management company to reconcile invoices monthly and establish a thorough checks and balances system. In addition, all account analysis will be reviewed by the CFO, Operations Manager and Executive Director prior to payment of invoices. The Operations Manager will review all invoices as they come in and then the CFO, Executive Director and Operations Manager will meet monthly to review all related party transactions again.

In order to establish a clean and timely reconciliation of the management fee and the reimbursements, the CFO has added another account that is dedicated to management fee recording. Also, the management company has decided to do a single reconciliation as requested by the auditor going forward to ensure timely and effective review of the account. An account receivable account has been established to record all invoices and apply any corresponding payments effective immediately.

The management company is in the process of implementing a new accounting system called Intacct, a cloud based platform that will greatly enable them to set up additional control, provide more timely and effective reporting to support efforts in tracking and reviewing costs.

The management company has already sent out an ad seeking a new controller to add expertise to support the CFO. This will greatly enhance the team experience and improve on their deliverables.

In addition, the Academy had already decided to hire a new accounting firm for the new fiscal year, which will start on July 1, 2018. The hiring of this new firm will greatly strengthen the review and analysis of related party transactions. Going forward, the Academy's new accountant will review revenues as they come in and will send LAYC the proper amount to be invoiced for the management fees on a monthly basis. LAYC will then, in turn, invoice the Academy and the Academy will pay the fees. Having a new accounting firm will strengthen internal controls by adding another check in the system to ensure that the amounts invoiced are more accurate and timely.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Schedule of Current Year Findings and Questioned Costs
For the Year Ended June 30, 2017**

Planned Implementation Date of Corrective Action

January 2018

Person Responsible for Corrective Action

Executive Director

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Schedule of Prior Year Findings and Questioned Costs For the Year Ended June 30, 2017

Finding: 2016-001

Type of Finding – Significant Deficiency over Financial Reporting

Criteria

In accordance with Uniform Grant Guidance, the School must maintain an adequate system of internal control over financial reporting in order to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

Condition

During our audit, we identified that accounts payable had not been reconciled as of June 30, 2016, to capture all unpaid invoices billed or unbilled that should have been accrued as of June 30, 2016. As a result, the accounts payable account as of June 30, 2016, required significant adjustments and additional time and analysis before the financial statements could be finalized.

Cause

The Academy did not have internal controls in place for the review and analysis of accounts payable on a timely basis.

Effect

The delay in completing account analyses for accounts payable could result in errors and irregularities, which may not be detected, and understatement of accounts payable.

Recommendation

We recommend that the Academy implement controls in place to ensure reconciliations and account analysis are completed and reviewed by appropriate supervisory personnel. The Academy must complete the implementation of these processes and controls to ensure accurate interim and year-end financial statements. Accurate financial information is vital to make management decisions that impact the Academy. We also recommend that management review invoices paid after year-end to ensure that all accruals are captured at year end.

Questioned Costs

Unknown

Corrective Action Plan and Management's Response

As part of the Academy's continuous plan to improve internal controls for financial reporting, the organization has instituted new measures such as month-end reminders that will go out to all staff to ensure that all invoices are submitted in a timely manner. In addition, a process has been established for the accounts payable supervisor and the operations lead to have monthly reconciliation meetings to ensure that all invoices have been submitted for payment. Such reconciliations will be reviewed and approved by the chief financial officer at the end of each quarter before the financial statements are approved and released to the board of directors.

Current Year Status

See Finding 2017-001.