

SAN CARLOS CHARTER LEARNING CENTER

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2018



SAN CARLOS CHARTER LEARNING CENTER
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FINANCIAL SECTION

DRAFT 12.03.18

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Carlos Charter Learning Center
San Carlos, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Carlos Charter Learning Center ("SCCLC") which comprise the statement of financial position as of June 30, 2018, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 San Carlos Charter Learning Center as of June 30, 2018, 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 financial statements of San Carlos Charter Learning Center taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **December XX, 2018**, on our consideration of the SCCLC'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 SCCLC's internal control over financial reporting and compliance.

San Diego, California
December XX, 2018

SAN CARLOS CHARTER LEARNING CENTER
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 1,303,394
Accounts receivable	184,177
Prepaid expenses	<u>57,723</u>
Total Assets	<u>\$ 1,545,294</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 214,353
Deferred revenue	<u>5,688</u>
Total liabilities	<u>220,041</u>

Net assets

Unrestricted	<u>1,325,253</u>
Total net assets	<u>1,325,253</u>
Total Liabilities and Net Assets	<u>\$ 1,545,294</u>

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**SAN CARLOS CHARTER LEARNING CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 1,701,316	\$ -	\$ 1,701,316
Federal revenues	58,577	-	58,577
Other state revenues	522,712	-	522,712
Total federal and state support and revenues	<u>2,282,605</u>	<u>-</u>	<u>2,282,605</u>
Local support and revenues			
Payments in lieu of property taxes	1,064,974	-	1,064,974
Parcel tax revenue	220,173	-	220,173
Grants and donations	410,622	-	410,622
Investment income, net	6,967	-	6,967
Afterschool care fees	385,093	-	385,093
Other local revenues	236,090	-	236,090
Total local support and revenues	<u>2,323,919</u>	<u>-</u>	<u>2,323,919</u>
Donor restrictions satisfied	8,978	(8,978)	-
Total Support and Revenues	<u>4,615,502</u>	<u>(8,978)</u>	<u>4,606,524</u>
EXPENSES			
Program services	4,052,483	-	4,052,483
Supporting services			
Management and general	580,522	-	580,522
Total Expenses	<u>4,633,005</u>	<u>-</u>	<u>4,633,005</u>
CHANGE IN NET ASSETS	(17,503)	(8,978)	(26,481)
Net Assets - Beginning	<u>1,342,756</u>	<u>8,978</u>	<u>1,351,734</u>
Net Assets - Ending	<u>\$ 1,325,253</u>	<u>\$ -</u>	<u>\$ 1,325,253</u>

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

**SAN CARLOS CHARTER LEARNING CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 2,281,233	\$ 47,530	\$ 2,328,763
Classified salaries	372,958	161,446	534,404
Deferred compensation	508,304	35,254	543,558
Payroll taxes	114,065	2,390	116,455
Other employee benefits	111,014	8,742	119,756
Total personnel expenses	<u>3,387,574</u>	<u>255,362</u>	<u>3,642,936</u>
Non-personnel expenses			
Books and supplies	121,257	11,723	132,980
Insurance	28,592	-	28,592
Facilities	5,326	76,572	81,898
Professional services	464,838	154,003	618,841
Payments to authorizing agency	-	82,862	82,862
Other operating expenses	44,896	-	44,896
Total non-personnel expenses	<u>664,909</u>	<u>325,160</u>	<u>990,069</u>
Total Expenses	<u>\$ 4,052,483</u>	<u>\$ 580,522</u>	<u>\$ 4,633,005</u>

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

**SAN CARLOS CHARTER LEARNING CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (26,481)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
(Increase) decrease in operating assets	
Accounts receivable	73,917
Prepaid expenses	(6,995)
Increase (decrease) in operating liabilities	
Accounts payable	27,385
Deferred revenue	5,688
Net cash provided by (used in) operating activities	<u>73,514</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,514
Cash and cash equivalents - Beginning	<u>1,229,880</u>
Cash and cash equivalents - Ending	<u>\$ 1,303,394</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ -</u>

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

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

San Carlos Charter Learning Center (“SCCLC”) is a nonprofit public benefit corporation, incorporated on September 10, 2010. SCCLC operates as a charter school approved by the State Board of Education in February 1993 as California Charter No. 001. SCCLC is the oldest charter school in California and one of the oldest charter schools in the United States. Through June 2011, SCCLC operated as a school site of the San Carlos School District. The 2011-2012 fiscal year was the first year that SCCLC operated as an independent charter school.

SCCLC is authorized to operate as a charter school through the San Carlos School District (the “authorizing agency” or “District”). In June 2017, the Governing Board for the San Carlos School District approved a charter renewal for SCCLC for a five year term beginning July 1, 2017 and expiring on June 30, 2022.

SCCLC’s mission is to be a collaborative public K-8 school community that educates, nurtures, and inspires learners to be independent thinkers as well as socially and personally responsible citizens through academic excellence guided by research, innovation, and continuous review. Funding sources primarily consist of state apportionments and grants and donations from the public.

B. Basis of Accounting

SCCLC’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

San Carlos Charter Learning Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management’s discretion in carrying out the activities of the organization in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support operations. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in SCCLC’s financial statement presentation.

D. 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.

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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.

F. Cash and Cash Equivalents

San Carlos Charter Learning Center considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

G. Investments

SCCLC'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.

H. 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, 2018, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

I. Capital Assets

San Carlos Charter Learning Center has not yet adopted a policy to capitalize purchases of property and equipment. As of June 30, 2018, SCCLC did not possess any capital assets over the capitalization threshold of \$5,000 previously adopted by the San Carlos School District.

J. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

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.

L. Income Taxes

San Carlos Charter Learning Center 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. San Carlos Charter Learning Center is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, SCCLC is not required to register with the California Attorney General as a charity.

San Carlos Charter Learning Center's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. SCCLC'S information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

M. 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.

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.

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. New Accounting Pronouncements

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 SCCLC has not yet determined the impact on the financial statements.

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 new requirements are to be applied to fiscal years beginning after December 15, 2017. SCCLC has not yet determined the impact on the financial statements.

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 is effective for public business entities for fiscal years beginning after December 15, 2018. SCCLC has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018, consist of the following:

Cash in county treasury	\$	780,984
Cash in banks, non-interest bearing		509,975
Cash in banks, interest bearing		12,435
Total Cash and Cash Equivalents	\$	1,303,394

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in County Treasury

Policies and Practices

San Carlos Charter Learning Center is a voluntary participant in an external investment pool. The fair value of SCCLC’s investment in the pool is reported in the financial statements at amounts based upon SCCLC’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest SCCLC funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the California Government Code:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Commercial Paper	270 days	25%	10%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in the market interest rates. SCCLC has managed its exposure to interest rate risk by investing in the County Treasury. The SCCLC’s investments in the San Mateo County Treasury Investment Pool, which combines SCCLC’s share of the portfolio, has a combined fair value of \$778,704 and an amortized book value of \$780,984 as of June 30, 2018. The average weighted maturity for this pool is 0.91 years.

Fair Value Measurement

Investments in the San Mateo County Treasury Investment Pool are not measured using the input levels described in Note 1M because SCCLC’s transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

Cash in Banks – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization’s deposits may not be returned to it. San Carlos Charter Learning Center 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, 2018, \$373,855 of San Carlos Charter Learning Center’s bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts at Wells Fargo.

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consists of the following:

Local control funding formula	\$	925
Federal sources		1,803
Other state sources		66,187
In lieu of property taxes		111,652
Other local sources		3,610
Total Accounts Receivable	\$	184,177

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2018, consist of the following:

Deferred summer compensation	\$	146,658
Employee benefits		4,601
Due to authorizing agency		13,064
Vendor payables		50,030
Total Accounts Payable	\$	214,353

NOTE 5 – PARCEL TAX REVENUE

Education parcel taxes are collected by the San Mateo County Treasurer-Tax Collector and provided to SCCLC as part of the Excellence in Education Acts of 2009 (“Measure B”) and 2011 (“Measure A”) as approved by voters. Under Measure B, the San Carlos School District is authorized to levy a qualified special tax (“school tax”) for an annual fee of \$78 for each parcel of taxable real property within the District’s boundaries for a period of six years, commencing July 1, 2009. Under Measure A, a school tax not to exceed \$110.60 per year per parcel of taxable property was approved for eight years, commencing July 1, 2011. Parcel tax payments are payable in two installments and are apportioned to SCCLC based on average daily attendance of resident students. During the year ended June 30, 2018, SCCLC was apportioned \$220,173 in parcel tax revenue.

NOTE 6 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to San Carlos Charter Learning Center in an effort to advance the SCCLC’s programs and objectives. SCCLC has adopted a Parent Participation Policy to outline responsibilities for family participation with regards to volunteer hours in an attempt to further its goals. It is recommended that each family contribute volunteer hours; however, it is not a requirement. The volunteer services have not been valued or recorded in SCCLC’s financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 7 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers’ Retirement System (CalSTRS), and classified employees are members of the California Public Employees’ Retirement System (CalPERS).

California State Teachers’ Retirement System (CalSTRS)

Plan Description

San Carlos Charter Learning Center contributes to the California State Teachers’ Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers’ Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 10.25% or 9.205% of their 2017-18 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. SCCLC’s contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2017-18	\$ 308,131	100%
2016-17	\$ 249,618	100%
2015-16	\$ 209,675	100%

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for San Carlos Charter Learning Center is estimated at \$149,660, which is computed as the proportionate share of total 2016-17 State on-behalf contributions.

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 7 – EMPLOYEE RETIREMENT PLANS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

San Carlos Charter Learning Center contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

Funding Policy

Active plan members, who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

San Carlos Charter Learning Center is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2017-18 was 15.531%. The contribution requirements of the plan members are established by state statute. SCCLC’s contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2017-18	\$ 85,767	100%
2016-17	\$ 59,724	100%
2015-16	\$ 42,135	100%

Alternative Plan

As established by federal law, all public sector employees who are not members of their employer’s existing retirement plan (CalSTRS or CalPERS) must be covered by social security or an alternative plan. SCCLC offers both social security and a 403(b) employee funded plan. All employees are eligible to participate in the plans. A participant of the 403(b) plan may make an election to defer compensation and have it contributed to the plan.

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – RELATED PARTY TRANSACTIONS

Authorizing Agency

San Carlos Charter Learning Center makes payments to the authorizing agency, San Carlos School District, for oversight and facility usage. In accordance with Education Code Section 47613(b), the authorizing agency may charge for actual costs of oversight not to exceed 3% of revenue from local control funding formula sources if the authorizing agency also provides substantially free facilities.

On May 2017, SCCLC approved a renewed memorandum of understanding (MOU) effective July 1, 2017 and ending June 30, 2020. In recognition for providing substantially rent-free facilities, the authorizing agency will be compensated 3% of SCCLC's state apportionment funding plus additional fees described in a separate facilities use agreement (see Note 9). Total fees paid to the authorizing agency for oversight amounted to \$82,862 for the fiscal year ended June 30, 2018.

Education Foundation

San Carlos Charter Learning Center receives local contributions from the San Carlos Educational Foundation (the "Foundation"). The Foundation is a tax exempt organization under IRS code section 501(c)(3) with the primary purpose of generating funding to support the schools within the San Carlos School District and San Carlos Charter Learning Center. In September 2010, the Foundation entered into a memorandum of understanding with the San Carlos School District and SCCLC to govern site-specific fundraising activities. The agreement calls for a site-cap of \$100,000 designed to ensure a baseline of funding that will go directly to each school. During the year ended June 30, 2018, the Foundation made \$235,461 in unrestricted contributions to SCCLC.

Fundraising Association

San Carlos Charter Learning Center receives local support from the San Carlos Charter Learning Center Fundraising Association (CLCFA). CLCFA is a tax exempt organization under IRS code section 501(c)(3) with the primary purpose to raise money to support the project based learning program at San Carlos Charter Learning Center. During the year ended June 30, 2018, CLCFA made \$100,000 in unrestricted contributions to SCCLC.

Board of Directors

SCCLC's Board of Directors is designed to include representatives from all affected groups (e.g.; parents, teachers and administrators); consequently, certain members of the Board of Directors are classified as interested parties because they are also employed by SCCLC.

SAN CARLOS CHARTER LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Joint Powers Agency (JPA)

During the year ended June 30, 2018, San Carlos Charter Learning Center participated in a joint venture with CharterSafe. 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 SCCLC and the JPA is such that the JPA is not financially inter-related to SCCLC for financial reporting purposes. Premiums paid to CharterSafe totaled \$55,070 for the period ended June 30, 2018.

Facility Use Agreement

On June 12, 2014, San Carlos Charter Learning Center entered into a facilities use agreement (FUA), separate than that of the memorandum of understanding (MOU), with the authorizing agency. The terms of the FUA became effective beginning July 1, 2016 and end June 30, 2018. Under the FUA, the total facility charge due from San Carlos Charter Learning Center to the authorizing agency is \$15,000 per year for classroom space used by SCCLC's Educare (afterschool care) program. During the first year of the FUA, SCCLC is responsible for an additional fee of \$40,000 for creating additional classrooms for SCCLC instruction. These payments are in addition to, and separate from, the oversight and other fees agreed to in the renewed MOU described in Note 8. During the fiscal year ended June 30, 2018, SCCLC paid \$15,000 to the San Carlos School District under the FUA.

Governmental Funds

San Carlos Charter Learning Center 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.

Multi-employer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, San Carlos Charter Learning Center's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require SCCLC to make payments to the plan, which would approximate SCCLC's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that San Carlos Charter Learning Center's share of withdrawal liability is approximately \$3,508,982 or 0.004% of California's State Teacher's Retirement Plan as of June 30, 2017. As of June 30, 2017, SCCLC did not have a withdrawal liability attributed to its participation in CalPERS. SCCLC does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 7 for additional information on employee retirement plans.

NOTE 10 – SUBSEQUENT EVENTS

San Carlos Charter Learning Center has evaluated subsequent events for the period from June 30, 2018 through **December XX, 2018**, 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 SECTION

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
 CHARTER ORGANIZATIONAL STRUCTURE
 JUNE 30, 2018**

San Carlos Charter Learning Center (“SCCLC”), located in San Mateo County, was formed as a nonprofit public benefit corporation in September 2010. Preceding the 2011-12 fiscal year, SCCLC operated as a charter school site of San Carlos School District, the authorizing agency. The Charter was approved by the State Board of Education in February 1993 under Charter No. 001. Classes began in September 1994 for grades K – 8.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Matt Kowitt	Board Chair & Family Representative	June 2018
Leigh Casamento	Vice Chair & Family Representative	June 2018
Olin Palmer	Family Representative	June 2019
Akash Bijlani	Family Representative	June 2019
Jason Gische	Family Representative	June 2019
Jessica Burtis Linderman	Staff Representative	September 2018
Robert Porter	SCSD Representative	Ongoing
Sonya Sigler	Business Representative	Ongoing
Alice Miller	Community Representative	Ongoing

ADMINISTRATION

Stacy Giles Emory
School Director

Jessika Welcome
Director of Business Services

Karrie Amsler
Director of Learner Services and Assistant Director

**SAN CARLOS CHARTER LEARNING CENTER
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Second Period	
	Report	Annual Report
<i>Certificate No.</i>	B2A6435C	48FA1FAF
	Classroom Based	
Grade Span		
Regular		
Kindergarten through third	167.83	168.09
Fourth through sixth	124.16	124.16
Seventh through eighth	67.70	67.73
Special Education		
Kindergarten through third	0.92	0.92
Fourth through sixth	2.79	2.80
Total Average Daily Attendance - Classroom Based	363.40	363.70
	Non-Classroom Based	
	Second Period	
	Report	Annual Report
Grade Span		
Regular		
Kindergarten through third	1.38	1.44
Fourth through sixth	0.73	0.67
Seventh through eighth	0.31	0.30
Total Average Daily Attendance - Non-Classroom Based	2.42	2.41
Grand Total Average Daily Attendance	365.82	366.11

See accompanying note to supplementary information.

**SAN CARLOS CHARTER LEARNING CENTER
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2018**

Grade Span	Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar		
Kindergarten	36,000	41,745	179		Complied
Grades 1 through 3	50,400	50,927	179		Complied
Grades 4 through 8	54,000	54,542	179		Complied

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no adjustments to reconcile fund balance reported on the Financial Report – Alternative Form to net assets per the audited financial statements for the year ended June 30, 2018.

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 – PURPOSE OF SCHEDULES

A. Charter Organizational Structure

This schedule provides information about SCCLC'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

San Carlos Charter Learning Center 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 San Carlos Charter Learning Center and whether San Carlos Charter Learning Center complied with the provisions of Education Code Section 46200 through 462008.

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

DRAFT 12.03.18

**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
San Carlos Charter Learning Center
San Carlos, 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 San Carlos Charter Learning Center ("SCCLC") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SCCLC's basic financial statements and have issued our report thereon dated December XX, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SCCLC'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 SCCLC's internal control. Accordingly, we do not express an opinion on the effectiveness of SCCLC'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 San Carlos Charter Learning Center’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 San Carlos Charter Learning Center’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 SCCLC’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Diego, California

December XX, 2018

DRAFT 12.03.18

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Directors of
San Carlos Charter Learning Center
San Carlos, California

Report on State Compliance

We have audited San Carlos Charter Learning Center's compliance with the types of compliance requirements described in the *2017-18 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 San Carlos Charter Learning Center's state programs for the fiscal year ended June 30, 2018, 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 San Carlos Charter Learning Center'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 *2017-18 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 occurred. An audit includes examining, on a test basis, evidence about San Carlos Charter Learning Center'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 San Carlos Charter Learning Center's compliance with those requirements.

Opinion on State Compliance

In our opinion, San Carlos Charter Learning Center complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine San Carlos Charter Learning Center's compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts and Charter Schools	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
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	No
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

We did not perform testing of Nonclassroom-Based Instruction/Independent Study because reported average daily attendance (ADA) was not material.

San Diego, California
December XX, 2018

**FINDINGS AND QUESTIONED COSTS
SECTION**

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>No</u>

Federal Awards

*SCCLC did not expend more than \$750,000 in federal awards;
therefore, a Federal Single Audit under Uniform 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>

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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 2017-18.

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments

There were no audit findings and questioned costs related to state awards during 2017-18.

DRAFT 12.03.18

**SAN CARLOS CHARTER LEARNING CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no audit findings and questioned costs during 2016-17 fiscal year.

DRAFT 12.03.18