

**TEACH, INC.**

**Independent Auditor's Report  
and Consolidated Financial Statements  
For the Year Ended  
June 30, 2017**

**Operating:  
TEACH Academy of Technologies  
TEACH Tech Charter High School**

**TEACH, INC.**

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**June 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
TEACH, Inc.  
Los Angeles, CA

### **Report on the Consolidated financial statements**

We have audited the accompanying consolidated financial statements of TEACH, Inc. (the Organization), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
TEACH, Inc.

## **Opinion**

In our opinion, the consolidated financial statements referred to on page one present fairly, in all material respects, the financial position of the Organization as of June 30, 2017, 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 Organization's consolidated financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2017 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP  
Glendora, CA  
November 28, 2017

TEACH, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
June 30, 2017

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 1,994,361
Accounts receivable - federal and state	688,490
Accounts receivable - other	8,841
Prepaid expenses and other assets	<u>65,545</u>
Total current assets	<u>2,757,237</u>

**LONG-TERM ASSETS:**

Restricted cash and cash equivalents	863,519
Property, plant and equipment, net	<u>10,864,232</u>
Total long-term assets	<u>11,727,751</u>
Total assets	<u>\$ 14,484,988</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable and accrued liabilities	\$ 235,026
Deferred revenue	70,027
Interest payable	<u>59,936</u>
Total current liabilities	<u>364,989</u>

**LONG-TERM LIABILITIES:**

Bonds payable	<u>12,013,164</u>
Total long-term liabilities	<u>12,013,164</u>

**NET ASSETS:**

Unrestricted	<u>2,106,835</u>
Total net assets	<u>2,106,835</u>
Total liabilities and net assets	<u>\$ 14,484,988</u>

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

**TEACH, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

**REVENUES:**

State revenue:	
State aid	\$ 4,120,740
Other state revenue	1,246,305
Federal revenue:	
Grants and entitlements	659,825
Local revenue:	
In-lieu property tax revenue	1,094,802
Contributions	5,715
Other revenue	440,290
Total revenues	<u>7,567,677</u>

**EXPENSES:**

Program services	5,308,624
Management and general	1,371,748
Fundraising	8,639
Total expenses	<u>6,689,011</u>
Change in unrestricted net assets	<u>878,666</u>
Change in unrestricted net assets	878,666
Unrestricted net assets, beginning of year	<u>1,228,169</u>
Unrestricted net assets, end of year	<u>\$ 2,106,835</u>

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

**TEACH, INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2017**

**CASH FLOWS from OPERATING ACTIVITIES:**

Change in net assets	\$ 878,666
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	207,043
Change in operating assets:	
Accounts receivable - federal and state	(52,864)
Accounts receivable - other	(8,841)
Prepaid expenses	16,116
Deposits	61,191
Change in operating liabilities:	
Accounts payable and accrued liabilities	36,030
Deferred revenue	43,776
Interest payable	59,936
Deferred rent liability	<u>(313,442)</u>
Net cash flows from operating activities	<u>927,611</u>

**CASH FLOWS from INVESTING ACTIVITIES:**

Purchases of property, plant and equipment	<u>(10,601,280)</u>
Net cash flows from investing activities	<u>(10,601,280)</u>

**CASH FLOWS from FINANCING ACTIVITIES:**

Proceeds from issuance of bonds payable	<u>11,149,645</u>
Net cash flows from financing activities	<u>11,149,645</u>

Net change in cash and cash equivalents	1,475,976
Cash and cash equivalents at the beginning of the year	<u>518,385</u>
Cash and cash equivalents at the end of the year	<u>\$ 1,994,361</u>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid for interest (net of capitalized interest)	<u>\$ 426,910</u>
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*The accompanying notes are an integral part of these consolidated financial statements.*

**TEACH, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2017**

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 2,415,912	\$ 323,684	\$ -	\$ 2,739,596
Pension expense	236,025	23,925	-	259,950
Other employee benefits	213,924	28,976	-	242,900
Payroll taxes	92,960	26,242	-	119,202
Management fees	-	549,918	-	549,918
Legal expenses	-	20,460	-	20,460
Accounting expenses	-	9,190	-	9,190
Instructional materials	130,036	-	-	130,036
Other fees for services	337,727	133,801	2,868	474,396
Advertising and promotion expenses	-	500	-	500
Office expenses	187,429	64,070	-	251,499
Printing and postage expenses	-	1,841	-	1,841
Information technology expenses	52,807	3,359	-	56,166
Occupancy expenses	513,747	67,852	-	581,599
Travel expenses	33,252	-	-	33,252
Interest expense	428,467	58,379	-	486,846
Depreciation expense	168,034	39,009	-	207,043
Insurance expense	24,266	3,554	-	27,820
Other expenses	474,038	16,988	5,771	496,797
	<u>\$ 5,308,624</u>	<u>\$ 1,371,748</u>	<u>\$ 8,639</u>	<u>\$ 6,689,011</u>

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

## TEACH, INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended June 30, 2017

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities* – TEACH, Inc. (the Organization) was incorporated in the State of California on January 2, 2001, under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Organization is comprised of TEACH Public Schools, Inc. (charter management organization), TEACH Academy of Technologies, TEACH Tech Charter High School, and Cunningham & Morris, LLC (the LLC). TEACH Academy of Technologies petitioned and was approved through Los Angeles Unified School District for a charter for a five-year period ending in 2020 under the Education Code Section 47612 and 47613.5, and began operations in 2010. TEACH Tech Charter High School petitioned and was approved through Los Angeles Unified School District for a charter for a five-year period ending in 2019 under the Education Code Section 47612 and 47613.5, and began operations in 2014.

The Organization currently serves approximately 520 students in Grade 5 through Grade 12.

The mission of the Organization is to create a high quality, innovative teaching and learning environment that focuses on literacy; integrating state-of-the-art technologies across the core curriculum to achieve academic proficiency for all students.

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

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

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

*Functional Allocation of Expenses* – Costs of providing the Organization's programs and other activities have been presented in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

*Basis of Presentation* – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

*Net Asset Classes* – The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**TEACH, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Net assets of the Organization are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the Organization.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The Organization does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the Organization. The Organization does not currently have any permanently restricted net assets.

**Receivables** – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2017. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

**Property, Plant and Equipment** – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset.

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

**Revenue Recognition** – Amounts received from the California Department of Education are recognized as revenue by the Organization based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

**Contributions** – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**TEACH, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Compensated Absences*– The Organization does not allow employees to carryover unused vacation. Accordingly, there were no accumulated absence benefits at June 30, 2017.

*Income Taxes* – The Organization is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Organization files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

*Consolidation* – The consolidated financial statements include the accounts of TEACH, Inc. and its single member limited liability company subsidiary: Cunningham & Morris, LLC. All material intercompany transactions have been eliminated.

*New Accounting Standard* - In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-03 Simplifying the Presentation of Debt Issue Costs. This update changes the presentation of debt issue costs from being reported as a separate asset on the statement of financial position to being reported as a reduction of the applicable debt.

TEACH, Inc. implemented this standard for its annual financial statements for the year ended June 30, 2017. The result of this change eliminated the long-term asset line item: Debt issuance costs and decreased the liability line item: Bonds payable in the statement of financial position. This change in accounting principal did not impact net assets or statement of activities.

*Evaluation of Subsequent Events* – The Organization has evaluated subsequent events through November 28, 2017, the date these consolidated financial statements were available to be issued.

**NOTE 2: CONCENTRATION OF CREDIT RISK**

The Organization maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment in the accompanying consolidated financial statements is presented net of accumulated depreciation. The Organization capitalizes all expenditures for land, buildings and equipment in excess of \$1,000. Depreciation expense was \$207,043 for the year ended June 30, 2017.

**TEACH, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

The components of property, plant and equipment as of June 30, 2017 are as follows:

	TEACH Academy of Technologies	TEACH Tech Charter High School	TEACH Public Schools, Inc.	Cunningham & Morris, LLC	Total
Construction in progress	\$ 46,349	\$ -	\$ 44,722	\$ 12,759	\$ 103,830
Land	-	-	-	3,280,111	3,280,111
Buildings	-	-	-	7,425,389	7,425,389
Leasehold improvements	65,533	8,875	-	-	74,408
Furniture, fixtures, equipment	125,093	74,713	11,277	-	211,083
Less accumulated depreciation	<u>(29,642)</u>	<u>(25,826)</u>	<u>(4,605)</u>	<u>(170,516)</u>	<u>(230,589)</u>
Property, plant and equipment, net	<u>\$ 207,333</u>	<u>\$ 57,762</u>	<u>\$ 51,394</u>	<u>\$ 10,547,743</u>	<u>\$ 10,864,232</u>

**NOTE 4: LINE OF CREDIT**

The Organization has a revolving line of credit with Pacific Western Bank for \$350,000 with an interest rate of the lenders base rate index plus 1.5%. The line of credit is available until July 13, 2018 and has a zero balance as of June 30, 2017.

**NOTE 5: BONDS PAYABLE**

In November 2016, Cunningham & Morris, LLC obtained financing through the CSFA. The amount loaned to the LLC was \$12,530,000 to be applied to the finance or refinance certain costs of the acquisition, construction, improvement, equipping and furnishing of charter school facilities. The loan agreement requires the LLC and TEACH, Inc. to comply with various covenants, conditions, and restrictions, including maintaining certain financial ratios. The bonds bear interest rates ranging from 5.250% to 5.875%.

The LLC is required to maintain in a bond reserve cash account an amount equal to the bond reserve requirement which is calculated as the least of (a) 10% of the proceeds from the bonds (b) maximum annual debt service with respect to the bonds outstanding, (c) 125% of average annual debt service with respect to the bonds or (d) the last bond year only, the total debt service with respect to the bonds outstanding.

Bonds payable are reported on the statement of financial position net of a discount of \$231,333 and net of issue costs of \$285,503. The discount and issue costs are amortized to interest expense over the life of the bonds.

A portion of the bonds are subject to early redemption at the option of the LLC on any date after June 1, 2026 together with accrued interest.

**TEACH, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**NOTE 5: BONDS PAYABLE**

Future maturities of bonds payable are as follows:

Year Ended <u>June 30,</u>	
2018	\$ -
2019	30,000
2020	135,000
2021	145,000
2022	150,000
Thereafter	<u>12,070,000</u>
Total future maturities	12,530,000
Bond issue costs	(285,503)
Bond discount	<u>(231,333)</u>
Total bonds payable	<u><u>\$ 12,013,164</u></u>

**NOTE 6: PARTICIPATION IN JOINT POWERS AUTHORITY**

The Organization entered into a Joint Powers Agreement (JPA) known as “CharterSAFE” through the California Charter Schools Association Joint Powers Authority (CCSA-JPA), a self insurance plan for workers' compensation, property/casualty, and school board liability insurance. The CCSA-JPA is governed by a board consisting of a representative from each member organization. The board controls the operation of the CCSA-JPA including selection of management and approval of operating budgets, independent of any influence by the member organizations beyond their representation on the board. Each member organization pays a premium commensurate with the level of coverage requested and share surpluses and deficits proportionate to their participation in the CCSA-JPA. The CCSA-JPA is a separate entity which is audited by an independent accounting firm.

**NOTE 7: EMPLOYEE RETIREMENT**

**Multi-employer Defined Benefit Pension Plans**

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

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

TEACH, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

**NOTE 7: EMPLOYEE RETIREMENT**

**State Teachers' Retirement System (STRS)**

**Plan Description**

The Organization contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2016, total plan net assets are \$189 billion, the total actuarial present value of accumulated plan benefits is \$333 billion, contributions from all employers totaled \$3.4 billion, and the plan is 63.7% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and [www.calstrs.com](http://www.calstrs.com).

**Funding Policy**

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The Organization is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for year ended June 30, 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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

<u>Year Ended</u> <u>June 30,</u>	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2015	\$ 88,952	100%
2016	\$ 151,033	100%
2017	\$ 248,478	100%

TEACH, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

**NOTE 7: EMPLOYEE RETIREMENT**

**Public Employees' Retirement System (PERS)**

**Plan Description**

The Organization contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2016, the School Employer Pool total plan assets are \$62.6 billion, the total pension liability is \$75.7 billion, contributions from all employers totaled \$1.4 billion, and the plan is 73.9% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the CalPERS' annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and [www.calpers.ca.gov](http://www.calpers.ca.gov).

**Funding Policy**

Active plan members brought into PERS membership prior to January 1, 2013 are required to contribute 7.0% of their salary while new members after January 1, 2013 are required to contribute 6.0% of their salary. The Organization 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 rate for year ended June 30, 2017 was 13.888%. The contribution requirements of the plan members are established and may be amended by State statute.

**Contributions to PERS**

The Organization's contributions to PERS for each of the last three years are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2015	\$ 19,875	100%
2016	\$ 23,609	100%
2017	\$ 11,472	100%

**TEACH, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**NOTE 8: CONTINGENCIES**

The Organization has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

**SUPPLEMENTARY INFORMATION**



**TEACH, INC.**

**SCHEDULE OF INSTRUCTIONAL TIME  
For the Year Ended June 30, 2017**

	<u>Instructional Minutes</u>		<u>Traditional Calendar</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>	<u>Days</u>	
<b>TEACH Academy of Technologies:</b>				
Grade 5	54,000	68,930	185	In compliance
Grade 6	54,000	68,930	185	In compliance
Grade 7	54,000	68,930	185	In compliance
Grade 8	54,000	68,930	185	In compliance
<b>TEACH Tech Charter High School:</b>				
Grade 9	64,800	68,930	185	In compliance
Grade 10	64,800	68,930	185	In compliance
Grade 11	64,800	68,930	185	In compliance
Grade 12	64,800	68,930	185	In compliance

*See independent auditor's report and the notes to the supplementary information.*

**TEACH, INC.**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
For the Year Ended June 30, 2017**

	<b>Second Period Report</b>		<b>Annual Report</b>	
	<b>Classroom</b>		<b>Classroom</b>	
	<b>Based</b>	<b>Total</b>	<b>Based</b>	<b>Total</b>
<b>TEACH Academy of Technologies:</b>				
Grades 5-6	121.70	121.70	121.25	121.25
Grades 7-8	174.56	174.56	173.46	173.46
Subtotal	296.26	296.26	294.71	294.71
<b>TEACH Tech Charter High School:</b>				
Grades 9-12	219.56	219.56	219.47	219.47
Subtotal	219.56	219.56	219.47	219.47
ADA Totals	515.82	515.82	514.18	514.18

*See independent auditor's report and the notes to the supplementary information.*

TEACH, INC.

RECONCILIATION OF ANNUAL FINANCIAL REPORT  
WITH AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

	TEACH Academy of Technologies	TEACH Tech Charter High School
June 30, 2017 Annual Financial Report Fund Balances (Net Assets)	\$ 1,803,883	\$ 193,594
Adjustments and Reclassifications:		
Increasing (Decreasing) the Fund Balance (Net Assets):		
Accounts receivable - other	3,147	-
Accounts payable and accrued liabilities	-	(5,700)
Deferred revenue	(55,390)	-
Net Adjustments and Reclassifications	<u>(52,243)</u>	<u>(5,700)</u>
June 30, 2017 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 1,751,640</u>	<u>\$ 187,894</u>

*See independent auditor's report and the notes to the supplementary information.*

**TEACH, INC.**

**SUPPLEMENTARY STATEMENT OF FINANCIAL POSITION**  
**June 30, 2017**

	TEACH Academy of Technologies	TEACH Tech Charter High School	TEACH Public Schools, Inc.	Cunningham & Morris, LLC	Eliminations	Total
<b><u>ASSETS</u></b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 1,310,139	\$ 23,045	\$ 166,498	\$ 494,679	\$ -	\$ 1,994,361
Accounts receivable - federal and state	352,831	335,659	-	-	-	688,490
Accounts receivable - other	3,150	-	5,691	-	-	8,841
Prepaid expenses and other assets	24,792	28,359	12,394	-	-	65,545
Intercompany receivable	98,462	-	77,005	-	(175,467)	-
Total current assets	<u>1,789,374</u>	<u>387,063</u>	<u>261,588</u>	<u>494,679</u>	<u>(175,467)</u>	<u>2,757,237</u>
<b>LONG-TERM ASSETS:</b>						
Restricted cash and cash equivalents	-	-	-	863,519	-	863,519
Deferred rent asset	-	-	-	78,652	(78,652)	-
Property, plant and equipment, net	207,333	57,762	51,394	10,547,743	-	10,864,232
Total long-term assets	<u>207,333</u>	<u>57,762</u>	<u>51,394</u>	<u>11,489,914</u>	<u>(78,652)</u>	<u>11,727,751</u>
Total assets	<u>\$ 1,996,707</u>	<u>\$ 444,825</u>	<u>\$ 312,982</u>	<u>\$ 11,984,593</u>	<u>\$ (254,119)</u>	<u>\$ 14,484,988</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued liabilities	\$ 111,025	\$ 66,827	\$ 57,174	\$ -	\$ -	\$ 235,026
Deferred revenue	55,390	14,637	-	-	-	70,027
Intercompany payable	-	175,467	-	-	(175,467)	-
Interest payable	-	-	-	59,936	-	59,936
Total current liabilities	<u>166,415</u>	<u>256,931</u>	<u>57,174</u>	<u>59,936</u>	<u>(175,467)</u>	<u>364,989</u>
<b>LONG-TERM LIABILITIES:</b>						
Bonds payable, net of current portion	-	-	-	12,013,164	-	12,013,164
Deferred rent liability	78,652	-	-	-	(78,652)	-
Total long-term liabilities	<u>78,652</u>	<u>-</u>	<u>-</u>	<u>12,013,164</u>	<u>(78,652)</u>	<u>12,013,164</u>
<b>NET ASSETS:</b>						
Unrestricted	1,751,640	187,894	255,808	(88,507)	-	2,106,835
Total net assets	<u>1,751,640</u>	<u>187,894</u>	<u>255,808</u>	<u>(88,507)</u>	<u>-</u>	<u>2,106,835</u>
Total liabilities and net assets	<u>\$ 1,996,707</u>	<u>\$ 444,825</u>	<u>\$ 312,982</u>	<u>\$ 11,984,593</u>	<u>\$ (254,119)</u>	<u>\$ 14,484,988</u>

*See independent auditor's report and the notes to the supplementary information.*

**TEACH, INC.**

**SUPPLEMENTARY STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017**

	TEACH Academy of Technologies	TEACH Tech Charter High School	TEACH Public Schools, Inc.	Cunningham & Morris, LLC	Eliminations	Total
<b>REVENUES:</b>						
State revenue:						
State aid	\$ 2,126,228	\$ 1,994,512	\$ -	\$ -	\$ -	\$ 4,120,740
Other state revenue	801,621	444,684	-	-	-	1,246,305
Federal revenue:						
Grants and entitlements	424,856	234,969	-	-	-	659,825
Local revenue:						
In-lieu property tax revenue	628,797	466,005	-	-	-	1,094,802
Contributions	2,128	217	3,370	-	-	5,715
Interest income	-	-	-	-	-	-
Other revenue	396,612	-	576,159	574,073	(1,106,554)	440,290
Total revenues	<u>4,380,242</u>	<u>3,140,387</u>	<u>579,529</u>	<u>574,073</u>	<u>(1,106,554)</u>	<u>7,567,677</u>
<b>EXPENSES:</b>						
Program services	2,474,135	2,365,451	395,765	578,536	(505,263)	5,308,624
Management and general	1,031,247	805,481	52,267	84,044	(601,291)	1,371,748
Fundraising	2,868	1,699	4,072	-	-	8,639
Total expenses	<u>3,508,250</u>	<u>3,172,631</u>	<u>452,104</u>	<u>662,580</u>	<u>(1,106,554)</u>	<u>6,689,011</u>
Change in unrestricted net assets	871,992	(32,244)	127,425	(88,507)	-	878,666
Unrestricted net assets, beginning of year	<u>879,648</u>	<u>220,138</u>	<u>128,383</u>	<u>-</u>	<u>-</u>	<u>1,228,169</u>
Unrestricted net assets, end of year	<u>\$ 1,751,640</u>	<u>\$ 187,894</u>	<u>\$ 255,808</u>	<u>\$ (88,507)</u>	<u>\$ -</u>	<u>\$ 2,106,835</u>

*See independent auditor's report and the notes to the supplementary information.*

**TEACH, INC.**

**SUPPLEMENTARY STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2017**

	TEACH Academy of Technologies	TEACH Tech Charter High School	TEACH Public Schools, Inc.	Cunningham & Morris, LLC	Eliminations	Total
<b>CASH FLOWS from OPERATING ACTIVITIES:</b>						
Change in net assets	\$ 871,992	\$ (32,244)	\$ 127,425	\$ (88,507)	\$ -	\$ 878,666
Adjustments to reconcile change in net assets to net cash flows from operating activities:						
Depreciation	20,413	13,008	3,106	170,516	-	207,043
Change in operating assets:						
Accounts receivable - federal and state	(26,988)	(25,876)	-	-	-	(52,864)
Accounts receivable - other	(3,150)	-	(5,691)	-	-	(8,841)
Prepaid expenses	28,204	(22,015)	9,927	-	-	16,116
Deposits	55,341	-	5,850	-	-	61,191
Intercompany receivable	44,961	-	(33,971)	-	(10,990)	-
Deferred rent asset	-	-	-	(78,652)	78,652	-
Change in operating liabilities:						
Accounts payable and accrued liabilities	(1,061)	15,668	21,423	-	-	36,030
Deferred revenue	36,472	7,304	-	-	-	43,776
Interest payable	-	-	-	59,936	-	59,936
Intercompany payable	-	(10,990)	-	-	10,990	-
Deferred rent liability	(234,790)	-	-	-	(78,652)	(313,442)
Net cash flows from operating activities	<u>791,394</u>	<u>(55,145)</u>	<u>128,069</u>	<u>63,293</u>	<u>-</u>	<u>927,611</u>
<b>CASH FLOWS from INVESTING ACTIVITIES:</b>						
Purchases of property, plant and equipment	<u>194,143</u>	<u>(32,442)</u>	<u>(44,722)</u>	<u>(10,718,259)</u>	<u>-</u>	<u>(10,601,280)</u>
Net cash flows from investing activities	<u>194,143</u>	<u>(32,442)</u>	<u>(44,722)</u>	<u>(10,718,259)</u>	<u>-</u>	<u>(10,601,280)</u>
<b>CASH FLOWS from FINANCING ACTIVITIES:</b>						
Proceeds from issuance of bonds payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,149,645</u>	<u>-</u>	<u>11,149,645</u>
Net cash flows from financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,149,645</u>	<u>-</u>	<u>11,149,645</u>
Net change in cash and cash equivalents	985,537	(87,587)	83,347	494,679	-	1,475,976
Cash and cash equivalents at the beginning of the year	<u>324,602</u>	<u>110,632</u>	<u>83,151</u>	<u>-</u>	<u>-</u>	<u>518,385</u>
Cash and cash equivalents at the end of the year	<u>\$ 1,310,139</u>	<u>\$ 23,045</u>	<u>\$ 166,498</u>	<u>\$ 494,679</u>	<u>\$ -</u>	<u>\$ 1,994,361</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>						
Cash paid for interest (net of capitalized interest)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,910</u>	<u>\$ -</u>	<u>\$ 426,910</u>

*See independent auditor's report and the notes to the supplementary information.*

**TEACH, INC.**

**NOTES TO THE SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2017**

**NOTE 1: PURPOSE OF SCHEDULES**

**Schedule of Instructional Time**

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

**Schedule of Average Daily Attendance**

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

**Reconciliation of Annual Financial Report with Audited Consolidated financial statements**

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

**Supplementary Financial Statements**

These statements report the financial position, activities and cash flows for each of TEACH, Inc.'s charter schools, departments, and subsidiaries.



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

Board of Directors  
TEACH, Inc.  
Los Angeles, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of TEACH, Inc. (the Organization), a nonprofit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, the related notes to the consolidated financial statements, and have issued our report thereon dated November 28, 2017.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization’s consolidated 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP  
Glendora, CA  
November 28, 2017



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**INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE**

Board of Directors  
TEACH, Inc.  
Los Angeles, CA

We have audited TEACH, Inc.’s (the Organization) compliance with the types of compliance requirements described in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2017. The Organization’s State compliance requirements are identified in the table below.

**Management’s Responsibility**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the Organization’s compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the Organization’s compliance.

**Compliance Requirements Tested**

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

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Yes

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### **Opinion on State Compliance**

In our opinion, the Organization complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2017.

### **Purpose of this Report**

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP  
Glendora, CA  
November 28, 2017

**TEACH, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017**

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

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

There were no findings and questioned costs related to the basic consolidated financial statements or state awards for June 30, 2017.

**TEACH, INC.**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2017**

There were no findings and questioned costs related to the basic consolidated financial statements or state awards for the prior year.