



FINANCIAL STATEMENTS

AS OF JUNE 30, 2017

(WITH COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2016)

WITH INDEPENDENT AUDITOR'S REPORT THEREON

LA PROMISE FUND

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INDEPENDENT AUDITORS' REPORT

Governing Board
LA Promise Fund
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of LA Promise Fund (A California Nonprofit Public Benefit Corporation), and LA Promise Charter Middle School, which are comprised of the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LA Promise Fund'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 LA Promise Fund'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 LA Promise Fund and LA Promise Charter Middle School #1 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.

Report on Summarized Comparative Information

The previously audited LA Promise Fund's 2016 financial statements were audited by another firm and expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary 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. Such 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 accompanying supplementary 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 September 16, 2017, on our consideration of LA Promise Fund and LA Promise Charter Middle School #1'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 LA Promise Fund and LA Promise Charter Middle School #1'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 LA Promise Fund and LA Promise Charter Middle School #1's internal control over financial reporting and compliance.

Varrink, Tin, Day & Co., LLP

Rancho Cucamonga, California
September 16, 2017

FINANCIAL SECTION

LA PROMISE FUND

STATEMENT OF FINANCIAL POSITION (With summarized totals at June 30, 2016)

FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,753,647	\$ 1,662,490
Accounts receivable	987,497	1,432,057
Prepaid expenses and other assets	68,224	26,533
Total Current Assets	<u>2,809,368</u>	<u>3,121,080</u>
Non-Current Assets		
Security deposits	41,947	8,743
Fixed assets	360,352	293,247
Less: accumulated depreciation	<u>(270,095)</u>	<u>(233,982)</u>
Total Non-Current Assets	<u>132,204</u>	<u>68,008</u>
Total Assets	<u>\$ 2,941,572</u>	<u>\$ 3,189,088</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 589,620	\$ 442,571
Current portion of long-term obligations	57,554	7,295
Total Current Liabilities	<u>647,174</u>	<u>449,866</u>
Long-Term Obligations		
Non-current portion of long-term obligations	217,996	25,550
Total Liabilities	<u>865,170</u>	<u>475,416</u>
NET ASSETS		
Unrestricted	290,021	898,838
Temporarily restricted	1,786,381	1,814,834
Total Net Assets	<u>2,076,402</u>	<u>2,713,672</u>
Total Liabilities and Net Assets	<u>\$ 2,941,572</u>	<u>\$ 3,189,088</u>

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

LA PROMISE FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(With summarized totals at June 30, 2016)

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Revenues and Support					
Contributions	\$ 557,634	\$ 1,961,600	\$ -	\$ 2,519,234	\$ 2,991,333
Federal revenue	598,012	-	-	598,012	-
State revenue	635,227	-	-	635,227	-
Special events income net of \$85,161 and \$356,566 of direct costs in 2017 and 2016	1,222,314	-	-	1,222,314	664,337
Investments income gain, net	2,731	-	-	2,731	-
Other income	154,459	-	-	154,459	16,384
Net assets released from restrictions	1,990,053	(1,990,053)	-	-	-
Total Revenues and Support	5,160,430	(28,453)	-	5,131,977	3,672,054
Functional Expenses					
Program services	4,674,617	-	-	4,674,617	2,598,730
Management and general	765,407	-	-	765,407	207,403
Fundraising	329,223	-	-	329,223	228,378
Total Functional Expenses	5,769,247	-	-	5,769,247	3,034,511
Change in Net Assets					
Before Acquisition	(608,817)	(28,453)	-	(637,270)	637,543
Fair value of net assets acquired in the acquisition of LA Fund	-	-	-	-	633,094
Change in Net Assets	(608,817)	(28,453)	-	(637,270)	1,270,637
Net Assets, Beginning of Year	898,838	1,814,834	-	2,713,672	1,443,035
Net Assets, End of Year	\$ 290,021	\$ 1,786,381	\$ -	\$ 2,076,402	\$ 2,713,672

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

LA PROMISE FUND

STATEMENT OF CASH FLOWS (With summarized totals at June 30, 2016)

FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ (637,270)	\$ 1,270,637
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	36,113	21,674
Fair value of net assets acquired in the acquisition of LA Fund	-	(633,094)
Change in Operating Assets and Liabilities:		
Increase (decrease) in pledge receivables	651,987	(549,345)
Increase in accounts receivables	(207,427)	-
Increase (decrease) prepaid expenses and other assets	(74,895)	13,913
Increase in accounts payable	147,049	117,868
Net Cash Provided (Used) by Operating Activities	<u>(84,443)</u>	<u>241,653</u>
Cash Flows From Investing Activities		
Cash proceeds from the acquisition of LA Fund	-	599,915
Cash paid for purchases of property and equipment	<u>(67,105)</u>	<u>(38,151)</u>
Net Cash Provided (Used) in Investing Activities	<u>(67,105)</u>	<u>561,764</u>
Cash Flows From Financing Activities		
Proceeds from long-term borrowings	250,000	-
Principal payments on loans payable	<u>(7,295)</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>242,705</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	91,157	803,417
Cash and Cash Equivalents, Beginning of Year	<u>1,662,490</u>	<u>859,073</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,753,647</u>	<u>\$ 1,662,490</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

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

LA PROMISE FUND

STATEMENT OF FUNCTIONAL EXPENSES

(With comparative total at June 30, 2016)

FOR THE YEAR ENDED JUNE 30, 2017

Functional Expenses	2017				2016			
	Program Services	General and Administration	Fundraising	Total	Program Services	General and Administration	Fundraising	Total
Personnel								
Salaries	\$ 1,682,527	\$ 536,311	\$ 180,897	\$ 2,399,735	\$ 1,211,330	\$ 133,577	\$ 112,787	\$ 1,457,694
Health insurance	143,165	24,630	14,988	182,783	95,336	10,647	8,945	114,928
Retirement plan	35,324	7,664	4,006	46,994	20,597	2,343	1,926	24,866
Payroll taxes	156,198	21,998	14,432	192,628	99,657	10,883	9,227	119,767
Total personnel	2,017,214	590,603	214,323	2,822,140	1,426,920	157,450	132,885	1,717,255
Operating								
Bank charges	-	14,041	-	14,041	-	2,541	-	2,541
Office supplies	62,755	10,648	1,467	74,870	44,540	702	942	46,184
Occupancy	200,118	13,847	11,642	225,607	91,816	10,139	8,520	110,475
Telephone	32,041	7,752	2,484	42,277	30,299	1,619	2,960	34,878
Printing	11,933	270	771	12,974	6,332	330	265	6,927
Professional services	397,905	79,154	18,948	496,007	481,796	7,883	30,431	520,110
Outside services	336,514	4,471	41,152	382,137	88,081	2,585	36,408	127,074
Equipment rent and maintenance	66,182	1,946	1,258	69,386	16,456	1,003	904	18,363
Licences	-	1,342	-	1,342	-	465	-	465
Dues & subscriptions	24,825	229	734	25,788	18,540	206	975	19,721
Development	1	-	-	1	35	-	26	61
Postage	3,164	118	346	3,628	1,846	162	475	2,483
Travel	9,109	215	1,848	11,172	8,123	156	935	9,214
Mileage	8,494	201	1,848	10,543	7,599	210	1,149	8,958
Conferences and meetings	30,450	9,699	1,373	41,522	3,094	3,164	298	6,556
Food and catering	221,558	9,021	15,662	246,241	47,338	7,884	1,024	56,246
School expenses	471,565	7,774	-	479,339	22,984	60	524	23,568
Insurance	47,787	7,156	5,231	60,174	42,684	927	3,685	47,296
Software and small equipment	145,560	3,023	8,240	156,823	21,515	5,603	3,405	30,523
Grants	95,695	2,500	-	98,195	-	-	-	-
Scholarships	218,760	-	-	218,760	180,637	-	-	180,637
Teacher stipends	62,258	-	-	62,258	533	-	-	533
Student/teacher transportation	109,111	39	-	109,150	35,550	2,826	530	38,906
Miscellaneous	101,618	1,358	1,896	104,872	22,012	1,488	2,037	25,537
Total operating	2,657,403	174,804	114,900	2,947,107	1,171,810	49,953	95,493	1,317,256
Total Functional Expenses	\$ 4,674,617	\$ 765,407	\$ 329,223	\$ 5,769,247	\$ 2,598,730	\$ 207,403	\$ 228,378	\$ 3,034,511

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

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - GENERAL

LA Promise Fund, formerly known as LA's Promise, is a California nonprofit public benefit corporation whose mission is to prepare Los Angeles students for success in college, career and life. The Los Angeles Promise Fund is a unique hybrid, operating programs in partnership with Los Angeles Unified School District at two traditional, comprehensive high schools and a middle school, as well as operating two charter schools in South LA. Further amplifying its impact, the LA Promise Fund runs high profile, far-reaching programs and engagement opportunities available to students and teachers across Los Angeles County. This structure allows for both high touch, intensive supports on school sites, inside and outside of the traditional district system, while also serving students through high profile, innovative programs that are available to students countywide.

As of June 30, 2016, LA's Promise acquired the assets and assumed the liabilities of the Los Angeles Fund for Public Education ("LA Fund") to create an organization with even more reach and depth. Together, the entity will empower students and reach beyond the borders of the original LA's Promise schools to hundreds of thousands of students throughout Los Angeles County. Effective June 30, 2016, LA's Promise is now named LA Promise Fund.

LA Promise Fund's vision is to ensure that students growing up in poverty receive an excellent education through vibrant school community hubs that graduate all students college and career ready, thereby radically improving the future of an entire community.

LA Promise Fund works within SLATE-Z, a federally designated Promise Zone, that includes two large South LA traditional high schools (Manual Arts and West Adams Prep) and one middle school (John Muir) operated by LAPF in a first-of-its-kind performance contract with LAUSD as well as manages its own public school, LA's Promise Charter Middle School #1.

Over the coming years, LA Promise Fund's goal is to adopt feeder schools to build a K-12 educational pipeline serving over 6,000 children.

On August 30, 2016, LA Promise Fund opened its first charter school (LA's Promise Charter Middle School #1) and LA Promise Fund has now opened its first high school (LA's Promise Charter High School #1) on August 15, 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Funding

LA Promise Fund is funded primarily from contributions from the public, grant awards, special events and government contracts funding from California Department of Education for LA's Promise Charter Middle School #1.

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

Principles of Combined Financial Statements

The accompanying financial statements include the accounts of LA Promise Fund and LA's Promise Charter Middle School #1. These financial statements also include financial activities and accounts related to LA's Promise Charter High School #1 incubating with LA Promise Fund this past year.

Financial Statement Presentation

The financial statements are presented utilizing the accrual basis of accounting. LA Promise Fund recognizes contributions, including unconditional promises to give, as revenue in the period in which they are received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LA Promise Fund and changes therein are classified and reported as follows:

Unrestricted net assets — These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Temporarily restricted net assets — LA Promise Fund reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. LA Promise Fund had \$1,786,381 of temporarily restricted net assets at June 30, 2017.

Permanently restricted net assets — These net assets are from donors who stipulate that resources are to be maintained permanently, but permit LA Promise Fund to expend part of the income (or other economic benefits) derived from the donated assets. LA Promise Fund has no permanently restricted net assets at June 30, 2017.

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at June 30, 2017 approximates its fair value. LA Promise Fund maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. LA Promise Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contributions and Pledges Receivable

Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. LA Promise Fund reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Discounts for pledges (pledges due over one year) are recorded as reductions to contribution revenue and pledges receivable. Discounts increase contribution revenue when the pledge is received.

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

At June 30, 2017, LA Promise Fund evaluated the collectability of pledges receivable and no allowance for uncollectible pledges was considered necessary. All pledges receivable at June 30, 2017, are expected to be collected within one year.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than two years. The estimated useful lives are as follows:

Furniture and Equipment: 3-7 years
Leasehold Improvements: 3 years

Long-Lived Assets

Long-lived assets such as property and equipment are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Further, long-lived assets held for sale are to be stated at the lower cost or fair market value less costs to sell. The LA Promise Fund has determined that no events occurred during the years ended June 30, 2017 that would give rise to impairment of its long-lived assets.

Contributed Goods and Services

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no contributed services recognized by LA Promise Fund during the year ended June 30, 2017.

Functional Allocation of Expenses

The costs of providing programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. LA Promise Fund uses salary dollars to allocate indirect costs.

Income Taxes

LA Promise Fund, which operates LA's Promise Charter Middle School #1, is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2013 and forward may be audited by regulatory agencies; however, LA Promise Fund is not aware of any such actions at this time.

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

LA Promise Fund has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported changes in net assets.

NOTE 3 - PROPERTY AND EQUIPMENT

At June 30, 2017, property and equipment consisted of the following:

	Foundation	Charter School	Total
Computer and equipment	\$ -	\$ 40,678	\$ 40,678
Furniture and equipment	274,106	-	274,106
Leasehold improvements	45,568	-	45,568
Subtotal	319,674	40,678	360,352
Less accumulated depreciation	(262,637)	(7,458)	(270,095)
Total Fixed Assets	<u>\$ 57,037</u>	<u>\$ 33,220</u>	<u>\$ 90,257</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$28,655 and \$21,674, respectively.

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Restricted for LA Promise Fund Programs	\$ 1,380,471	\$ 1,408,924
Restricted for LA Fund Programs	405,910	405,910
Total Temporarily Restricted Net Assets	<u>\$ 1,786,381</u>	<u>\$ 1,814,834</u>

Amounts were released from restriction during the year due to the passage of time restrictions for the temporarily restricted support.

NOTE 5 - OPERATING LEASES

LA Promise Fund rents office space under a lease agreement, which expires in September 2019. Future minimum payments are as follows:

Fiscal Year Ending <u>June 30,</u>	
2018	\$ 100,619
2019	103,637
2020	<u>43,716</u>
Total	<u>\$ 247,972</u>

Rent expense under facility operating leases and other rental expenses for the year ended June 30, 2017, was \$97,702, which is included in occupancy in the statement of functional expenses.

During the 2016-2017 fiscal school year, the Charter School renewed its lease agreement with St. Brigid Catholic Church in which the Charter School will occupy 1755 West 52nd Street, Los Angeles for its middle school campus location. Subsequently, the middle school campus has been relocated and lease amended for the high school campus to occupy the location; see Note 10 for additional information. The term of the lease terminates on June 30, 2018. Lease expense for fiscal year 2016-2017 was \$100,000, which is included in occupancy.

Future payments are as follows:

Fiscal Year Ending <u>June 30,</u>	
2018	<u>\$ 148,725</u>

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 6 - LONG-TERM OBLIGATIONS

Capital Lease

LA Promise Fund entered into an agreement with Ricoh USA, Inc. to lease a copier. Such agreement is, in substance, purchases (capital lease) and is reported as a capital lease obligation with an implicit interest rate of 3.5 percent. As of June 30, 2017, the balance on the capital lease obligation is \$25,550.

Future payments are as follows:

Fiscal Year Ending June 30,	
2018	\$ 8,328
2019	8,328
2020	8,328
2021	2,082
Total minimum lease payments	27,066
Less amount representing interest	(1,516)
Present value of minimum lease payments	<u>\$ 25,550</u>

California School Finance Authority Revolving Loan Fund Program

LAPCMS#1 applied for, and was accepted, into the California School Finance Authority Revolving Loan Fund Program in 2015-2016. LAPCMS#1 received a loan in the amount of \$250,000. The loan bears an interest rate of 0.60 percent with a maturity date in 2021. The repayments will be withheld from LAPCMS#1's monthly apportionment payments. At June 30, 2017, the balance was \$250,000.

Future payments are as follows:

Repayment Year	Principal	Interest	Total
2018	\$ 62,500	\$ 1,380	\$ 63,880
2019	62,500	1,017	63,517
2020	62,500	653	63,153
2021	62,500	289	62,789
Total	<u>\$ 250,000</u>	<u>\$ 3,339</u>	<u>\$ 253,339</u>

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

LA Promise Fund (LAPF) has a defined contribution plan (the Plan) currently covering all LAPF employees and LA Promise Charter Middle School #1 employees with eligibility defined as 30 days or a minimum of 1000 hours of service in the calendar year. LA Promise Fund makes a matching contribution equal to participants' contributions to the Plan of a match rate of 100% for the first 3% and 50% on the next 2% of participant's salary contributed. Total expense for the year ended June 30, 2017, was \$39,451.

NOTE 8 - COLLABORATIVE AGREEMENT WITH LOS ANGELES UNIFIED SCHOOL DISTRICT

In October of 2008, LA Promise Fund and Los Angeles Unified School District (LAUSD) entered into a comprehensive collaborative educational services and performance agreement whereby LA Promise Fund and the LAUSD agreed to create a new model for delivery of LAUSD educational services in the City of Los Angeles, to improve schools and school communities, develop best practices and share them throughout the LAUSD. LAUSD will utilize these educational services. On October 9, 2012, LAUSD approved a five year extension covering the period July 1, 2013, through June 30, 2018.

NOTE 9 - RELATED ENTITY TRANSACTIONS

LA Promise Fund has incurred various costs that were identified as expenditures of LA Promise Charter Middle School #1 during 2016-2017 fiscal year. As of June 30, 2017, the outstanding balance not reimbursed to LA Promise Fund was \$5,079.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants

LAPCMS#1 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 reimbursement, if required, would not be material.

Litigation

LA Promise Fund is not currently a party to any legal proceedings.

LA PROMISE FUND

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 11 - SUBSEQUENT EVENTS

LA Promise Fund evaluated their June 30, 2017, financial statements for subsequent events through September 16, 2017, the date the financial statements were available to be issued. LA Promise Fund is not aware of any subsequent events, other than those noted below, which would require recognition or disclosure in the accompanying financial statements.

LAPCMS#1 is relocating the charter school site for the 2017-2018 school year to a new location at 4920 South Western Avenue, Los Angeles, CA. LAPCMS #1 has entered into a lease agreement for the new location.

As part of the relocation, LAPCHS#1, the new charter high school, will occupy the old middle school site at 1755 West 52nd Street, Los Angeles, California, and assume all related cost for facilities. LAPCHS#1 opened on August 15, 2017.

SUPPLEMENTARY INFORMATION

LA PROMISE FUND

COMBINING STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED JUNE 30, 2017

	Foundation	Charter Middle School	Subtotal	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,423,023	\$ 330,624	\$ 1,753,647	\$ -	\$ 1,753,647
Accounts receivable	780,070	207,427	987,497	-	987,497
Intracompany receivable	5,079	-	5,079	(5,079)	-
Prepaid expenses and other assets	50,006	18,218	68,224	-	68,224
Total Current Assets	2,258,178	556,269	2,814,447	(5,079)	2,809,368
Non-Current Assets					
Security deposits	41,947	\$ -	41,947	-	41,947
Fixed assets	319,674	40,678	360,352	-	360,352
Less: accumulated depreciation	262,637	7,458	270,095	-	270,095
Total Non-Current Assets	98,984	33,220	132,204	-	132,204
Total Assets	\$ 2,357,162	\$ 589,489	\$ 2,946,651	\$ (5,079)	\$ 2,941,572
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 511,985	77,635	\$ 589,620	\$ -	\$ 589,620
Current portion of long-term obligations	7,554	50,000	57,554	-	57,554
Intracompany payables	\$ -	5,079	5,079	(5,079)	-
Total Current Liabilities	519,539	132,714	652,253	(5,079)	647,174
Long-Term Obligations					
Non-current portion of long-term obligations	17,996	200,000	217,996	-	217,996
Total Liabilities	537,535	332,714	870,249	(5,079)	865,170
Net Assets					
Unrestricted	33,246	256,775	290,021	-	290,021
Temporarily restricted	1,786,381	-	1,786,381	-	1,786,381
Total Net Assets	1,819,627	256,775	2,076,402	-	2,076,402
Total Liabilities and Net Assets	\$ 2,357,162	\$ 589,489	\$ 2,946,651	\$ (5,079)	\$ 2,941,572

LA PROMISE FUND

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2017

	Foundation	Charter Middle School	Subtotal	Eliminations	Total
Revenues					
Contributions	\$ 2,188,866	\$ 330,368	\$ 2,519,234	\$ -	\$ 2,519,234
Federal revenue	111,135	486,877	598,012	-	598,012
State revenue	-	635,227	635,227	-	635,227
Special events income net of \$85,161 of direct costs	1,222,314	-	1,222,314	-	1,222,314
Investment gain, net	2,731	-	2,731	-	2,731
Other income	573	153,886	154,459	-	154,459
Total Revenue	<u>3,525,619</u>	<u>1,606,358</u>	<u>5,131,977</u>	<u>-</u>	<u>5,131,977</u>
Expenses					
Program services	3,949,360	725,257	4,674,617	-	4,674,617
Management and general	149,295	616,112	765,407	-	765,407
Fundraising	329,223	-	329,223	-	329,223
Total Expenses	<u>4,427,878</u>	<u>1,341,369</u>	<u>5,769,247</u>	<u>-</u>	<u>5,769,247</u>
Change in net assets	(902,259)	264,989	(637,270)	-	(637,270)
Net assets, beginning of year	2,721,886	(8,214)	2,713,672	-	2,713,672
Net assets, end of year	<u>\$ 1,819,627</u>	<u>\$ 256,775</u>	<u>\$ 2,076,402</u>	<u>\$ -</u>	<u>\$ 2,076,402</u>

LA PROMISE FUND

NOTE TO SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Combining Statements

The accompanying combining financial statements report the activities of LA Promise Fund and are presented on the accrual basis of accounting. Eliminating entries in the combining financial statements are due to activities between LA Promise Fund and LA's Promise Charter Middle School #1.



**INDEPENDENT AUDITOR'S 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***

Governing Board
LA Promise Fund
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of LA Promise Fund (A California Nonprofit Public Benefit Corporation), and LA Promise Charter Middle School, (the Charter School) as of and for the year ended June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2017.

Report on Summarized Comparative Information

The previously audited LA Promise Fund's 2016 financial statements were audited by another firm and expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LA Promise Fund and LA Promise Charter Middle School #1'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LA Promise Fund and LA Promise Charter Middle School #1's internal control. Accordingly, we do not express an opinion on the effectiveness of LA Promise Fund and LA Promise Charter Middle School #1'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 LA Promise Fund and LA Promise Charter Middle School #1'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 LA Promise Fund and LA Promise Charter Middle School #1'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 LA Promise Fund and LA Promise Charter Middle School #1's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LA Promise Fund and LA Promise Charter Middle School #1's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vannink, Tinn, Day & Co., LLP

Rancho Cucamonga, California
September 16, 2017

LA PROMISE FUND

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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LA PROMISE FUND

**FINANCIAL STATEMENTS FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

LA PROMISE FUND

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

LA PROMISE FUND

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

There were no audit findings reported in the prior year's schedule of financial statement findings.