ENCORE EDUCATION CORPORATION

Includes the Following Charter Schools:

Encore Jr./Sr. High School for the Performing & Visual Arts (Charter No. 0971); and Encore High School for the Arts-Riverside (Charter No. 1747)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2020

NIGRO & NIGRO PC

ENCORE EDUCATION CORPORATION
For the Fiscal Year Ended June 30, 2020
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Encore Education Corporation
Hesperia, California

Report on the Financial Statements
We have audited the accompanying financial statements of Encore Education Corporation (a California nonprofit Organization), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities, cash flows, and functional expenses for the fiscal year then ended, and the related notes to the combined 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.

Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Encore Education Corporation, as of June 30, 2020, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are 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 February 16, 2021, 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 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.

Nigro & Nigro, PC

Murrieta, California
February 16, 2021

ENCORE EDUCATION CORPORATION
Statement of Financial Position
June 30, 2020

ASSETS		
Current Assets:		
Cash	$	598,320
Accounts receivable (Note 3)		2,915,406
Prepaid expenses		50,186
Other current assets		130,408
Total current assets		3,694,320
Non-current Assets:		
Deferred rent asset (Note 4)		1,139,271
Property, plant, and equipment, net (Note 5)		2,130,473
Total non-current assets		3,269,744
Total Assets	$	6,964,064
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities:		
Accounts payable	$	791,544
Accrued payroll and benefits		237,556
Deferred rent liability (Note 4)		46,230
Line of credit (Note 6)		1,394,678
Revenue Anticipation Note (Note 6)		1,321,000
Note payable (Note 6)		2,081,084
Paycheck Protection Program loan (Note 6)		2,040,000
Capital lease, current portion (Note 6)		48,390
Settlement payable, current portion (Note 6)		250,000
Total current liabilities		8,210,482
Long term liabilities:		
Capital lease, long-term portion (Note 6)		4,210
Settlement payable, long-term portion (Note 6)		187,500
Total long-term liabilities		191,710
Total Liabilities		8,402,192
Net assets		
Without donor restrictions		(1,496,206)
With donor restrictions (Note 7)		58,078
Total net assets		(1,438,128)
Total Liabilities and Net Assets	$	6,964,064

ENCORE EDUCATION CORPORATION

Statement of Activities

For the Fiscal Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
LCFF revenues	$ 16,608,645	$ -	$ 16,608,645
Federal revenues	-	749,810	749,810
State Special Education	-	705,022	705,022
Lottery	284,094	88,723	372,817
Other state revenues	23,707	2,424,357	2,448,064
Food services	-	12,724	12,724
Other local revenues	37,130	11,662	48,792
Net assets released from restrictions	3,934,220	(3,934,220)	-
Total revenues, gains, and other support	20,887,796	58,078	20,945,874
Expenses			
Program Services:			
Education	13,464,127	-	13,464,127
Supporting Services:			
Management and general	7,409,029	-	7,409,029
Total Expenses	20,873,156	-	20,873,156
Change in net assets	14,640	58,078	72,718
Net Assets			
Beginning of year	(1,149,090)	-	(1,149,090)
Adjustment for restatements (Note 12)	(361,756)	-	(361,756)
Adjusted net assets, beginning of year	(1,510,846)	-	(1,510,846)
End of year	$ (1,496,206)	$ 58,078	$ (1,438,128)

ENCORE EDUCATION CORPORATION
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	72,718
Prior period restatement		(361,756)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation		332,508
(Increase) decrease in operating assets:		
Accounts receivable		(269,853)
Prepaid expenses		95,815
Other current assets		(130,408)
Deferred rent asset		(282,768)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities		(351,943)
Net cash provided (used) by operating activities		(895,687)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and building improvements		(168,268)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on factored receivables		(7,709,085)
Line of credit - amounts borrowed		1,591,625
Line of credit - amounts repaid		(196,947)
Revenue Anticipation Note - amounts borrowed		3,920,000
Revenue Anticipation Note - amounts repaid		(2,599,000)
Borrowing on note payable		2,500,000
Repayment of principal on note payable		(418,916)
Paycheck Protection Program loan proceeds		2,040,000
Capital lease principal payments		(79,645)
Revolving loan principal payments		(100,002)
Payments on settlement payable		(250,000)
Net cash provided (used) by financing activities		(1,301,970)
Net increase (decrease) in cash		(2,365,925)
Cash:		
Beginning of year		2,964,245
End of year	$	598,320
SUPPLEMENTAL DISCLOSURE		
Interest paid	$	77,001

ENCORE EDUCATION CORPORATION
Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2020

	Program Services	Supporting Services	
	Education	Management And General	Total Expenditures
Certificated salaries	$ 4,673,062	$ 153,600	$ 4,826,662
Classified salaries	2,993,842	726,805	3,720,647
Benefits	3,419,863	343,607	3,763,470
Total Salaries and Benefits	11,086,767	1,224,012	12,310,779
Books & supplies	298,495	31,306	329,801
Services, other operating expenses	2,075,064	4,567,888	6,642,952
Noncapitalized equipment	3,801	256	4,057
Depreciation	-	332,508	332,508
Interest	-	1,253,059	1,253,059
Totals	$ 13,464,127	$ 7,409,029	$ 20,873,156

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

Encore Education Corporation (the "Organization") is a California nonprofit public benefit corporation and is organized to manage and operate a public charter school. For the year ended June 30, 2020, the Organization operated two public charter schools: Encore Jr./Sr. High School for the Performing and Visual Arts and Encore High School for the Arts – Riverside (the "Schools"). The mission of the Schools is to provide a creative, challenging, and nurturing environment that offers students innovative preparation for a university education and pursuit of the arts.

On October 22, 2007, the Hesperia Unified School District (HUSD) (Sponsor) approved the petition of a charter for the establishment and operation of Encore Jr./Sr. High School for the Performing and Visual Arts (Hesperia). Hesperia's current charter is granted for the term of five years beginning July 1, 2016 through June 30, 2021. Hesperia is a site-based, traditional calendar charter school, serving students in seventh through twelfth grades.

On December 8, 2014, the Riverside Unified School District (RUSD) (Sponsor) approved the petition of a charter for the establishment and operation of Encore High School for the Arts – Riverside (Riverside). Riverside's current charter granted is for the term of five years beginning July 1, 2015 through June 30, 2020. The School is closed effective June 30, 2020. Riverside was a site-based, traditional calendar charter school, serving students in seventh through tenth grades.

The Schools are charter schools organized and existing under the laws of the state of California. The Schools receive most of their funding from both state sources and local taxes through the state of California general-purpose entitlement funding system. Charters may be revoked by the sponsoring district for material violations of the charter, failure to meet student goals, identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

B. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, donor-restricted net assets are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. As of June 30, 2020, the Organization determined that there were no uncollectible accounts.

C. Basis of Presentation and Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective January 1, 2018 and addresses general-purpose external financial statements appropriate for not-for-profit organizations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation and Accounting (continued)

Under the provisions of the ASC 958-205, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met either by the actions of the not-for-profit organization to satisfy a particular purpose restriction, or by the passage of time. Some donor restrictions are perpetual (or permanent) in nature, whereby the donor has stipulated the funds be maintained in perpetuity, whereby the corpus of the donation must remain unspent.

D. Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Organization receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

E. Donated Materials and Supplies

Donated materials and supplies are recorded as contributions at their estimated fair market value at the date of donation if a value can be reasonably determined. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

F. Contributed Services

During the year ended June 30, 2020, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

G. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 and revenues and expenses during the reporting period. Significant estimates include the lives used for depreciation of property and equipment and allocation of costs between the various programs and expense categories. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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 information returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state tax purposes is generally three and four years, respectively.

I. Cash

The Organization considers certificates of deposit with a maturity date of 90 days or longer to be investments. At year-end and throughout the year, the Organization's cash balances were deposited in one financial institution. As of June 30, 2020, the Organization did not hold any cash as investments.

J. Custodial Credit Risk

The Organization maintains its cash at one financial institution. Cash balances are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). At various times during the year, the amount on deposit with a single financial institution may exceed federal depository insurance limits and be exposed to custodial credit risk. At June 30, 2020, the Organization had cash in the amount of $503,981 which was exposed to this risk.

K. Accounts Receivable

Accounts receivable consists mainly of grants and contract payments from other public agencies. No allowance for uncollectable amounts has been estimated as creditworthiness of payors and industry experience provide evidence to support amounts as fully collectible.

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

M. Capital Assets

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Items that, as a whole, create an asset with a combined cost exceeding $5,000 have also been capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Estimated Useful Life in Years
Furniture, Equipment and Leasehold Improvements	3-25
Buildings	10-39

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements

In accordance with fair value measurements, the Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Organization has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Organization's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

O. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function, as shown in the Statement of Functional Expenses. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Grants	Time and effort
Salaries and benefits	Time and effort
Occupancy / rent	Facilities square footage
Insurance	Policy type and nature of coverage
Utilities	Facilities square footage
Supplies	Time and effort
Depreciation	Facilities square footage
Amortization	Time and effort

NOTE 2 – LIQUIDITY

The Organization's financial assets available within one year of the Statement of Financial Position date for general expenditure are as follows:

Cash and cash equivalents	$	598,320
Accounts receivable		2,915,406
Prepaid expenses		50,186
Other current assets		130,408
Total current assets	$	3,694,320

The Organization's policy for liquidity management requires that it structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2020, consisted of the following:

Federal Government:		
Special education	$	228,379
Title I		325,543
Title II		36,251
Title III		27,396
School lunch and breakfast program		434
State Government:		
LCFF		1,607,106
Special education		69,325
Lottery		163,252
Other state		442,662
Local:		
Other local		15,058
Total	$	2,915,406

NOTE 4 – DEFERRED RENT

As described in Note 11, the Organization pays rent to 16955 Lemon Street LLC which owns the building used by the Hesperia campus for its school facilities. Amounts paid in excess of the straight-line amortized value of lease payments are recognized as a "deferred rent asset" in the amount of $1,139,271 for the Hesperia campus and a "deferred rent liability" for the Riverside campus in the amount of $46,230.

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment in the accompanying financial statements are presented net of accumulated depreciation. Depreciation expense for the year ended June 30, 2020 was $332,508.

The components of property, plant, and equipment as of June 30, 2020 are as follows:

Building and Improvements	$	1,282,820
Furniture, Fixtures, and Equipment		2,470,221
Less: Accumulated Depreciation		(1,622,568)
Total capital assets, net	$	2,130,473

NOTE 6 – DEBT

A schedule of changes in debt payable for the year ended June 30, 2020 is shown below:

	Balance, July 1, 2019	Additions	Deductions	Balance, June 30, 2020	Current Portion
Factored receivables	$ 7,709,085	$ -	$ 7,709,085	$ -	$ -
Line of credit	-	1,591,625	196,947	1,394,678	1,394,678
Revenue Anticipation Note	-	3,920,000	2,599,000	1,321,000	1,321,000
Note payable	-	2,500,000	418,916	2,081,084	2,081,084
Paycheck Protection Program loan	-	2,040,000	-	2,040,000	2,040,000
Capital lease	132,245	-	79,645	52,600	48,390
Revolving loan payable	100,002	-	100,002	-	-
Settlement payable	687,500	-	250,000	437,500	250,000
Totals	$ 8,628,832	$ 10,051,625	$ 11,353,595	$ 7,326,862	$ 7,135,152

A. Line of Credit
During the year, the Organization established a line of credit through Charter Asset Management in the amount of $2,250,000. Amounts borrowed against the line of credit are due on April 30, 2021 and carry an interest rate of 7.95%. The outstanding balance at June 30, 2020 was $1,394,678.

B. Revenue Anticipation Note
On September 24, 2019 the Organization participated in the issuance of $3,920,000 Revenue Anticipation Notes through the California School Finance Authority. The Authority loaned the proceeds of the notes to Encore to provide working capital for the Organization. The notes were due on August 15, 2020 and carried an interest rate of 4.0%. The outstanding balance at June 30, 2020 was $1,321,000.

C. Note Payable
During the year, the Organization established a loan payable through Charter Asset Management in the amount of $2,500,000. Repayments are due monthly through February 1, 2021 and carry an interest rate of 7.0%. The outstanding balance at June 30, 2020 was $2,081,084.

D. Paycheck Protection Program (PPP) Loan
On April 24, 2020, the Organization received a PPP loan in the amount of $2,040,000 from the Small Business Administration (SBA). The SBA will forgive the loan if all employee retention criteria are met and the funds are used for eligible expenses. The Organization expects to meet the criteria, at which time it will apply for forgiveness of the loan.

NOTE 6 – DEBT (continued)

E. Capital Lease

The Organization leases certain equipment under a capital lease agreement with a capitalized cost of $140,666. The lease matures on July 1, 2021 and bears an interest rate of 8.00%. The outstanding balance under this lease at June 30, 2020 was $52,600.

Future minimum lease payments under the lease agreement are as follows:

Year Ending June 30,	Amount
2021	$ 50,850
2022	4,238
Subtotal	55,088
Less: Interest	(2,488)
Total	$ 52,600

The Organization will receive no sublease revenue on the equipment.

F. Settlement Payable

On January 22, 2018, the Organization entered into a Settlement Agreement with Gaines & Gaines APLC on behalf of current and former employees relating to three areas of wage/hour administrative requirement penalties, including (a) paying employees monthly vs. semimonthly or biweekly; (b) sufficiently itemized wage statements containing the full name of the nonprofit corporation as IRS employer as well as the charter school name and including hourly rate detail vs. total pay amount only; and (c) payment of final paycheck on regularly scheduled payday vs. within 72 hours of resignation. The total amount of the Settlement Agreement is $1,000,000, payable in sixteen (16) quarterly payments of $62,500 beginning June 15, 2018 and ending March 15, 2022. All payments have been made on time and in full. The outstanding balance on the Settlement Agreement as of June 30, 2020 is $437,500.

The schedule of repayment of debt is as follows:

Year Ending June 30,	Amount
2021	$ 250,000
2022	187,500
Total	$ 437,500

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2020:

	Balance, July 1, 2019	Revenues	Amounts Released from Restrictions	Balance, June 30, 2020
Child nutrition	$ -	$ 55,889	$ (55,889)	$ -
Lottery: instructional materials	-	131,689	(89,810)	41,879
SB 117 COVID-19 LEA Response Funds	-	28,647	(15,614)	13,033
Low-Performing Students Block Grant	-	3,166	-	3,166
Totals	$ -	$ 219,391	$ (161,313)	$ 58,078

NOTE 8 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. 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). The Organization is a participant in the plans and its contributions do not exceed 5% of total plan-level contributions.

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description
The Organization contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2019, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/actuarial-financial-and-investor-information.

Benefits Provided
The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and non-employer contributing entity to the STRP. The Organization contributes exclusively to the STRP Defined Benefit Program; thus, disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Member Contribution Rate	10.25%	10.205%
Required Employer Contribution Rate	17.10%	17.10%
Required State Contribution Rate	10.328%	10.328%

NOTE 8 – EMPLOYEE RETIREMENT PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Contributions
Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In June 2019, California Senate Bill 90 (SB 90) was signed into law and appropriated approximately $2.2 billion in fiscal year 2018–19 from the state's General Fund as contributions to CalSTRS on behalf of employers. The bill requires portions of the contribution to supplant the amounts remitted by employers such that the amounts remitted will be 1.03 and 0.70 percentage points less than the statutorily required amounts due for fiscal years 2019–20 and 2020–21, respectively. The remaining portion of the contribution is allocated to reduce the employers' share of the unfunded actuarial obligation of the DB Program.

The Organization's contributions to CalSTRS and required employer contribution rate for the last three fiscal years were as follows:

	Contribution	Required Contribution Rate
2019-20	$ 762,477	17.10%
2018-19	$ 785,803	16.28%
2017-18	$ 685,076	14.43%

On-Behalf Payments
The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the Organization for its proportionate share of the State's on-behalf contributions is $587,095.

B. California Public Employees Retirement System (CalPERS)

Plan Description
Qualified employees are eligible to participate in the Organization's Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/employers/actuarial-resources/gasb.

NOTE 8 – EMPLOYEE RETIREMENT PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0 – 2.5%	2.0 – 2.5%
Required Employee Contribution Rate	7.00%	7.00%
Required Employer Contribution Rate	19.721%	19.721%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Organization is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020 are presented above.

The Organization's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Required Contribution Rate
2019-20	$ 718,972	19.721%
2018-19	$ 709,146	18.062%
2017-18	$ 769,089	15.531%

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Organization has elected to use the Social Security as its alternative plan.

NOTE 9 – OPERATING LEASES

The Organization occupies office and classroom space for its operations and educational programs under separate operating leases. Total expense for rental of space under operating leases was $2,119,585 for the year ended June 30, 2020. The property is being financed by the issuance of $17,440,000 in Charter School Revenue Bonds (the 2016 Revenue Bonds) through the California School Finance Authority.

Future minimum annual lease payments remaining under the lease terms outstanding are as follows:

Year Ending June 30,	Amount
2021	$ 1,137,112
2022	980,250
2023	979,500
2024	983,250
2025	981,250
2025-2030	4,910,250
2030-2035	4,909,000
2035-2040	4,906,000
2040-2045	4,912,500
2045-2050	4,903,000
2050-2052	1,963,000
Total	$ 31,565,112

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The Organization is involved in certain legal matters that arose out of the normal course of business. The Organization has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2020.

B. Impact of COVID-19

On March 13, 2020, a presidential emergency was declared due to the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. The declaration made federal disaster assistance available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act to the State of California to supplement the local recovery efforts by the K-12 education community. On that same date, Governor Newsom issued Executive Order N-26-20, guaranteeing continued State funding, holding LEAs harmless from several regulations, and providing guidelines for LEAs to operate under a "distance learning" environment.

In response, the Organization announced the closing of all schools in mid-March. With nearly all schools in California shut down to stem the spread of COVID-19, officials statewide hastily put in place plans to deliver "grab and go" meals with minimal contact between cafeteria staff, volunteers and families in need. In addition, the Organization worked to implement distance learning for all students for the remainder of the 2019-20 school year.

A companion bill to Executive Order N-26-20, Senate Bill 117 changed the method used by the Organization to calculate average daily attendance (ADA) for both the P-2 and Annual period apportionment to include all full school months from July 1, 2019 to February 29, 2020. As events unfold and changes are made on a daily basis, the future impacts of COVID-19 on the Organization's operations are not fully known at this time.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

C. Closure of Riverside Campus

On April 30, 2020, the Board of Directors voted to close the Encore High School for the Arts – Riverside at the end of the 2019-20 school year. The closure went into effect as of June 30, 2020, and all of that school's operations have been discontinued.

NOTE 11 – RELATED PARTY TRANSACTIONS

Interested Parties

The chief operations officer is the husband of the chief executive officer. Both have extensive backgrounds in business operations and management, and the chief operating officer is a veteran certificated teacher. There are other related parties that are employed by the Organization. However, pursuant to Encore Education policy, no such relationship exists between any employee of the Organization and a member of the board. Moreover, the board and unrelated employee supervisors oversee all such related employees, and all decisions related to their employment and compensation.

Bonds Payable – Western Encore Properties

On November 1, 2016, Western Encore Properties Incorporated, a California nonprofit public benefit corporation (the Borrower), borrowed a total of $17,440,000 by issuing Charter School Revenue Bonds (the 2016 Revenue Bonds) through the California School Finance Authority.

The Borrower established 16955 Lemon Street, LLC (the LLC), a wholly owned subsidiary of the Borrower, to act as the holder of the Organization's main school campus located at 16955 Lemon Street in Hesperia, California (the Encore Facility). The LLC has no other activities. The LLC is expected to have no assets, other than holding title to the Encore Facility, and is expected to have no revenue other than payments received pursuant to the Lease Agreement described below.

At issuance, the entire proceeds of the 2016 Revenue Bonds were loaned to the LLC to i) finance certain costs of the acquisition, construction, improvement, equipping, and furnishing of the Encore Facility at 16955 Lemon Street, ii) fund a debt service reserve account, and iii) pay the costs of issuance for the 2016 Revenue Bonds.

Under the terms of the 2016 Revenue Bonds, the LLC then leased the campus to the Corporation pursuant to a Lease Agreement, dated November 1, 2016. The payments under this Lease Agreement match the principal and interest payments on the 2016 Revenue Bonds, and are automatically intercepted by the California School Finance Authority on a quarterly basis and transferred to US Bank Trust Company, the trustee for the 2016 Revenue Bonds. The trustee then applies all such payments semiannually to make the principal and interest payments to holders of the 2016 Revenue Bonds.

The Corporation has pledged all assets and revenues of its Hesperia campus towards payment of these lease payments. The Corporation's Riverside campus is not a member of the "obligated group" of these 2016 Revenue Bonds, which were used solely by the Hesperia campus and are paid from the Hesperia campus' revenues each year.

NOTE 11 – RELATED PARTY TRANSACTIONS (continued)

Bonds Payable – Western Encore Properties (continued)
Future maturities of the bonds are as follows:

Year Ending June 30,	Amount
2021	$ 355,000
2022	215,000
2023	225,000
2024	240,000
2025	250,000
2025-2030	1,455,000
2030-2035	1,855,000
2035-2040	2,365,000
2040-2045	3,025,000
2045-2050	3,850,000
2050-2052	1,825,000
Total	$ 15,660,000

NOTE 12 – ADJUSTMENTS FOR RESTATEMENT

The Organization made certain adjusting journal entries during the year to reconcile various account balances that carried over from the 2018-19 fiscal year. A summary of the adjustments made and their effect on the beginning balances of net assets at July 1, 2019 are as follows:

	Encore Jr./Sr. High School for the Performing & Visual Arts	Encore High School for the Arts - Riverside	Total
Adjustments to beginning net assets:			
2018-19 accounts receivable overreported	$ (214,866)	$ (110,418)	$ (325,284)
2018-19 accrued payroll (under)/over reported	6,746	(43,218)	(36,472)
Adjustments for restatement totals	$ (208,120)	$ (153,636)	$ (361,756)

NOTE 13 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2020, have been evaluated through February 16, 2021, the date at which the Organization's audited financial statements were available to be issued.

Economic Conditions
At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the Organization’s investment earnings and donor contributions for the remainder of 2020 and beyond. However, the potential impact to the Organization is unknown at this time.

Supplementary Information

Encore Education Corporation (the "Organization") was established in 2007 and is a nonprofit public benefit corporation organized to manage and operate public charter schools. For the year ended June 30, 2020, the Organization operated two public charter schools: Encore Jr./Sr. High School for the Performing & Visual Arts and Encore High School for the Arts – Riverside.

Encore Jr./Sr. High School for the Performing & Visual Arts began serving students in August 2008. The charter has been renewed for a term of five years beginning July 1, 2016 through June 30, 2021 and is sponsored by the Hesperia Unified School District. The charter number authorized by the state of California is 971.

Encore High School for the Arts – Riverside began serving students in August 2015. The charter was granted on December 8, 2014 by the Riverside Unified School District for a term of five years beginning July 1, 2015 through June 30, 2020. The charter number authorized by the state of California is 1747. This school was closed effective June 30, 2020.

BOARD OF DIRECTORS

Member	Office	Term Expires
Suzanne Cherry	President	May, 2022
Rob Gabler	Vice President	May, 2022
Kelly Ahmed	Board Secretary	May, 2022
Evelyn Rojas	Member	May, 2022
Mari Miller	Member	May, 2022
Paula Gharib	Member	May, 2022

ADMINISTRATORS

Denise Griffin,
Chief Executive Officer

John Griffin,
Chief Operations Officer

ENCORE EDUCATION CORPORATION

Statement of Financial Position – Combining Charter Schools
June 30, 2020

	Encore Jr./Sr. High School for the Performing & Visual Arts	Encore High School for the Arts - Riverside	Intracompany Eliminations	Total
ASSETS				
Current Assets:				
Cash	$ 575,858	$ 22,462	$ -	$ 598,320
Accounts receivable	1,737,529	1,177,877	-	2,915,406
Prepaid expenses	50,186	-	-	50,186
Other current assets	-	130,408	-	130,408
Intracompany receivables	-	650,000	(650,000)	-
Total current assets	2,363,573	1,980,747	(650,000)	3,694,320
Non-current Assets:				
Deferred rent asset	1,139,271	-	-	1,139,271
Property, plant, and equipment, net	771,322	1,359,151	-	2,130,473
Total non-current assets	1,910,593	1,359,151	-	3,269,744
Total Assets	$ 4,274,166	$ 3,339,898	$ (650,000)	$ 6,964,064
LIABILITIES AND NET ASSETS				
Liabilities				
Current Liabilities:				
Accounts payable	$ 412,306	$ 379,238	$ -	$ 791,544
Accrued payroll and benefits	170,235	67,321	-	237,556
Deferred rent liability	-	46,230	-	46,230
Intracompany payables	650,000	-	(650,000)	-
Line of credit	1,394,678	-	-	1,394,678
Revenue Anticipation Note	1,321,000	-	-	1,321,000
Note payable	-	2,081,084	-	2,081,084
Paycheck Protection Program loan	-	2,040,000	-	2,040,000
Capital lease, current portion	24,195	24,195	-	48,390
Settlement payable, current portion	150,000	100,000	-	250,000
Total current liabilities	4,122,414	4,738,068	(650,000)	8,210,482
Long term liabilities:				
Capital lease, long-term portion	2,105	2,105	-	4,210
Settlement payable, long-term portion	137,500	50,000	-	187,500
Total long-term liabilities	139,605	52,105	-	191,710
Total Liabilities	4,262,019	4,790,173	(650,000)	8,402,192
Net assets				
Without donor restrictions	5,455	(1,501,661)	-	(1,496,206)
With donor restrictions	6,693	51,385	-	58,078
Total net assets	12,148	(1,450,276)	-	(1,438,128)
Total Liabilities and Net Assets	$ 4,274,167	$ 3,339,897	$ (650,000)	$ 6,964,064

ENCORE EDUCATION CORPORATION

Statement of Activities – Combining Charter Schools

For the Fiscal Year Ended June 30, 2020

	Encore Jr./Sr. High School for the Performing & Visual Arts	Encore High School for the Arts - Riverside	Total
REVENUES, GAINS, AND OTHER SUPPORT			
LCFF revenues	$ 9,340,937	$ 7,267,708	$ 16,608,645
Federal revenues	540,776	209,034	749,810
State special education	352,799	352,223	705,022
Lottery	184,259	188,558	372,817
Other state revenues	1,353,515	1,094,549	2,448,064
Food services	6,362	6,362	12,724
Other local revenues	48,647	145	48,792
Total Revenues, Gains, and Other Support	11,827,295	9,118,579	20,945,874
EXPENSES			
Certificated salaries	2,706,636	2,120,026	4,826,662
Classified salaries	2,115,191	1,605,456	3,720,647
Benefits	2,150,287	1,613,183	3,763,470
Books and supplies	221,078	108,723	329,801
Noncapitalized equipment	3,952	105	4,057
Services, other operating expenses	3,681,585	2,961,367	6,642,952
Depreciation	211,589	120,919	332,508
Interest	371,230	881,829	1,253,059
Total Expenses	11,461,548	9,411,608	20,873,156
Change in net assets	365,747	(293,029)	72,718
Net Assets			
Beginning of year	(145,479)	(1,003,611)	(1,149,090)
Adjustment for restatements	(208,120)	(153,636)	(361,756)
Adjusted net assets, beginning of year	(353,599)	(1,157,247)	(1,510,846)
End of year	$ 12,148	$ (1,450,276)	$ (1,438,128)

ENCORE EDUCATION CORPORATION

Statement of Cash Flows – Combining Charter Schools

For the Fiscal Year Ended June 30, 2020

	Encore Jr./Sr. High School for the Performing & Visual Arts	Encore High School for the Arts - Riverside	Intracompany Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$ 365,747	$ (293,029)	$ -	$ 72,718
Prior period restatement	(208,120)	(153,636)	-	(361,756)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:				
Depreciation	211,589	120,919	-	332,508
(Increase) decrease in operating assets:				
Accounts receivable	(721,511)	451,658	-	(269,853)
Prepaid expenses	(18,608)	114,423	-	95,815
Other current assets	-	(130,408)	-	(130,408)
Intracompany receivables	-	(650,000)	650,000	-
Deferred rent asset	(282,768)	-		(282,768)
Increase (decrease) in operating liabilities:				
Accounts payable and accrued liabilities	(42,846)	(309,097)	-	(351,943)
Intracompany payables	650,000	-	(650,000)	-
Net cash provided (used) by operating activities	(46,517)	(849,170)	-	(895,687)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of equipment and building improvements	(72,059)	(96,209)	-	(168,268)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on factored receivables	(3,951,742)	(3,757,343)	-	(7,709,085)
Line of credit - amounts borrowed	1,591,625	-	-	1,591,625
Line of credit - amounts repaid	(196,947)	-	-	(196,947)
Revenue Anticipation Note - amounts borrowed	3,920,000	-	-	3,920,000
Revenue Anticipation Note - amounts repaid	(2,599,000)	-	-	(2,599,000)
Borrowing on note payable	-	2,500,000	-	2,500,000
Repayment of principal on note payable	-	(418,916)	-	(418,916)
Paycheck Protection Program loan proceeds	-	2,040,000	-	2,040,000
Capital lease principal payments	(43,318)	(36,327)	-	(79,645)
Revolving loan principal payments	-	(100,002)	-	(100,002)
Payments on settlement payable	(125,000)	(125,000)	-	(250,000)
Net cash provided (used) by financing activities	(1,404,382)	102,412	-	(1,301,970)
Net increase (decrease) in cash	(1,522,958)	(842,967)	-	(2,365,925)
Cash:				
Beginning of year	2,098,817	865,428	-	2,964,245
End of year	$ 575,859	$ 22,461	$ -	$ 598,320
SUPPLEMENTAL DISCLOSURE				
Interest paid	$ 73,480	$ 3,521	$ -	$ 77,001

ENCORE JR./SR. HIGH SCHOOL FOR THE PERFORMING & VISUAL ARTS

	Second Period Report Certificate No. 3819E317	**Annual Report** Certificate No. 2DDD873B
Regular ADA:		
Grades 7-8	342.10	342.10
Grades 9-12	557.17	557.17
Total	899.27	899.27
Classroom-based ADA:		
Grades 7-8	339.92	339.92
Grades 9-12	543.56	543.56
Total	883.48	883.48

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

ENCORE HIGH SCHOOL FOR THE ARTS- RIVERSIDE

	Second Period Report	Annual Report	Second Period Report	Annual Report
	Certificate No. 9458DF3C	Certificate No. DD58A484	Audited	Audited
Regular ADA:				
Grades 7-8	281.74	281.74	281.74	281.74
Grades 9-12	469.43	469.43	469.38	469.38
Total	751.17	751.17	751.12	751.12
Classroom-based ADA:				
Grades 7-8	278.84	278.84	278.84	278.84
Grades 9-12	459.96	459.96	459.96	459.96
Total	738.80	738.80	738.80	738.80

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

ENCORE JR./SR. HIGH SCHOOL FOR THE PERFORMING & VISUAL ARTS

Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Grade 7	54,000	68,844	179	Complied
Grade 8	54,000	68,844	179	Complied
Grade 9	64,800	68,844	179	Complied
Grade 10	64,800	68,844	179	Complied
Grade 11	64,800	68,844	179	Complied
Grade 12	64,800	68,844	179	Complied

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 47612 and 47612.5. The instructional time presented in this schedule includes the days that the School was closed due to the COVID-19 pandemic.

ENCORE HIGH SCHOOL FOR THE ARTS- RIVERSIDE

Grade Level	Required	2019-20 Offered Minutes	Number of Days Traditional Calendar	Status
Grade 7	54,000	72,827	182	Complied
Grade 8	54,000	72,827	182	Complied
Grade 9	64,800	72,827	182	Complied
Grade 10	64,800	72,827	182	Complied
Grade 11	64,800	72,827	182	Complied
Grade 12	64,800	72,827	182	Complied

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 47612 and 47612.5. The instructional time presented in this schedule includes the days that the School was closed due to the COVID-19 pandemic.

ENCORE EDUCATION CORPORATION

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2020

This schedule provides the information necessary to reconcile the net assets reported on the Unaudited Actual financial report to the audited financial statements.

	Encore Jr./Sr. High School for the Performing & Visual Arts	Encore High School for the Arts - Riverside	Total
June 30, 2020, annual financial and budget report net assets	$ 5,401	$ (1,407,059)	$ (1,401,658)
Adjustments and reclassifications:			
Increase (decrease) in total net assets:			
Accrued payroll and benefits	6,746	(43,216)	(36,470)
June 30, 2020, audited financial statement net assets	$ 12,147	$ (1,450,275)	$ (1,438,128)

Other Independent Auditors' Reports

INDEPENDENT AUDITORS' 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*

Board of Directors
Encore Education Corporation
Hesperia, 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 Encore Education Corporation as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 16, 2021.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Encore Education Corporation's internal control over financial reporting (internal control) as a basis for designing 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 the Encore Education Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Encore Education Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Organization’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2020-002 and 2020-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2020-001 and 2020-004 to be significant deficiencies.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Encore Education Corporation’s financial statements are free of 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 financial statements. 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*.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA

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Encore Education Corporation's Responses to Findings
Encore Education Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Encore Education Corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nigro & Nigro, PC

Murrieta, California
February 16, 2021

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Encore Education Corporation
Hesperia, California

Report on State Compliance
We have audited Encore Education Corporation's compliance with the types of compliance requirements described in the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Encore Education Corporation's state government programs as noted on the following page for the fiscal year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Encore Education Corporation's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Encore Education Corporation'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 for each state program. However, our audit does not provide a legal determination of Encore Education Corporation's compliance.

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

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not Applicable
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable

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Description	Procedures Performed
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

Unmodified Opinion on Compliance with State Programs

In our opinion, Encore Education Corporation complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2020.

Other Matter(s)

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to previously, which are required to be reported in accordance with the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* and which are described in the accompanying schedule of findings as Findings 2020-005 and 2020-006. Our opinion on each state program is not modified with respect to these matters.

District's Responses to Findings

Encore Education Corporation's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings. Encore Education Corporation's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

Nigro & Nigro, PC

Murrieta, California
February 16, 2021

Findings and Responses

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

The School expended less than $750,000 in federal awards during the year; therefore, a Single Audit pursuant to Uniform Guidance was not performed.

State Awards

Type of auditors' report issued on compliance for state programs:	Unmodified

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.* Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
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

Finding 2020-001: Fiscal Challenges (30000, 60000)

Criteria: Sound financial management, including understanding, establishing, implementing and monitoring proper internal controls and accounting policies and procedures, is essential to a charter school's ability to achieve its mission. Although charter schools are not required to file interim reports as positive, qualified, or negative as school districts are, understanding and using the certification definitions on interim reports to show whether the charter school is able to meet its financial obligations is a suggested best practice.

Condition: Although the Organization has improved its financial condition over each of the last two fiscal years, it continues to face fiscal challenges that must be closely monitored in order to prevent it from becoming insolvent in the near future. These challenges include:

- The net assets reported by the Schools at June 30, 2020 in this audit report are $12,147 for Hesperia and ($1,450,275) *negative* net assets for Riverside. The closure of the Riverside campus at the end of the fiscal year creates an opportunity to consolidate management, but the fiscal improvement plans relies on the assumption that the Paycheck Protection Program (PPP) loan of $2,040,000 will be forgiven and be used to pay down the School's debt.

- In order to ensure adequate working capital, the Organization has entered into short-term debt through a variety of financing mechanisms. While this has allowed the Organization to continue to meet its financial obligations, borrowing costs and interest expense represent a substantial annual expenditure that reduces the amount available for programs.

- In addition, the 2016 tax-exempt conduit revenue bond issued by Encore to acquire its main school facility includes certain covenants to bondholders, including maintenance of a minimum 45 days cash on hand at the end of each fiscal year, which Encore has not met in the most recent two years.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2020-001: Fiscal Challenges (30000, 60000)

Condition (continued):

- As a result of the COVID-19 pandemic, the Organization was forced to move to a distance learning environment and has seen a decline in enrollment. Funding in future years will be reduced if the enrollment does not recover as projected.

Cause: There was a long history of deficit spending for both the Hesperia and Riverside school campuses. While progress is being made towards fiscal solvency, the current administration will continue to face mounting challenges. Also, the Organization will have to address the rising cost of providing special education services, health and welfare benefits to employees, as well increasing pension contributions for STRS and PERS.

Effect: If revenues do not materialize as planned, or the closure of the Riverside campus affects the Organization negatively, the Organization could face fiscal insolvency if not closely monitored and resolved.

Recommendation: The Organization should closely monitor its budget and enrollment, as well as the close-out of the Riverside campus to ensure that the negative fund balance is recovered as planned. If assumptions change, the Organization needs to able to implement budget cuts to maintain its fiscal health.

Views of Responsible Officials: We agree with this finding and the need to ensure fiscal solvency. As stated in this finding, we have already demonstrated improvement in our fiscal condition in each of the past two fiscal years. We have made continuing this fiscal improvement a top priority in the current 2020-21 fiscal year, with a projected additional improvement to net assets of $1.017 million while completing the closure of the Riverside campus with all debtors and creditors paid in full. This will bring our net asset balance to $1.022 million, or 9.0% of annual expenditures.

We have met all requirements for 100% forgiveness of the Organization's outstanding Paycheck Protection Program loan, including retaining staff during the initial critical months of COVID-19 and school closure, and anticipate forgiveness by February 2021. We are also reducing our reliance on short-term debt, which will in turn reduce borrowing costs and increase cash reserves. Lastly, we have been in close contact with our bond investors and have continued to fully disclose our path for corrective action and "Days Cash on Hand" covenant compliance to the investor group.

We concur that enrollment growth following post-COVID reopening will be very important. However, management and the Board are committed to continuing fiscal improvement through a variety of possible enrollment scenarios, and we are prepared to rapidly implement budget cuts if necessary, to continue meeting this goal.

Finding 2020-002: Financial Reporting Errors (30000)
This is a repeat of Finding 2019-001.

Criteria: Generally accepted accounting principles (GAAP) require that the year-end financial statement balances include all financial transactions as of the date of the financial statements. Good internal controls and prudent business practices require the Organization to establish and implement policies and procedures to ensure that the year-end closing process includes a timely reconciliation of all accounts to ensure accurate ending balances are reported.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2020-002: Financial Reporting Errors (30000) (continued)

Condition: Several audit adjustments were necessary to properly report the balances of accounts receivable, accounts payable, and revenue accounts.

Cause: The Organization relied on an outside back-office consulting firm to assist with year-end closing but lacks the financial expertise to oversee those services and consistently provide accurate data.

Effect: The Organization's financial statements could be materially misstated without adjusting journal entries.

Recommendation: We recommend that the Organization update its year-end closing procedures to include additional review procedures to ensure account balances are reconciled before the audit.

Views of Responsible Officials: We agree with this finding, and with the importance of minimizing year-end closing adjustments. As stated, this Finding is a repeat of Finding 2019-001 from last year, but it is important to note that due to our improvement in year-end closing procedures, the total amount of audit adjustments for the 2018-19 fiscal year was $357,146 in six stated areas, plus a restatement of an additional $361,756 in net asset balance, while for this year the total adjustments to the 2019-20 year are $36,470 in only one area, a 95% reduction. While our goal for total adjustments is of course zero, the implementation of new and expanded year-end closing procedures has indeed demonstrated substantial progress towards this goal.

To progress further towards this goal, we are retaining a full-time on-site Controller in early 2021 who will oversee all on-site financial operations, act as a liaison to the third-party backoffice provider, and directly oversee our year-end closing process for the 2020-21 fiscal year forward.

Finding 2020-003: Student Services Account (30000)

Criteria: The Organization maintains a student services debit account, which is used to pay for transportation, meals, testing, and student activities. The account activity should follow prudent business practices, including management oversight, regular financial reporting, and implementation of internal controls.

Conditions:
During our review of the internal controls over the account at the Hesperia campus, we noted the following:

- A budget is not prepared or adopted by the School.
- Minutes of Student Council meetings were not available to be reviewed by the auditors
- We tested a sample of 15 cash disbursements and found:
    - Thirteen disbursements were not approved until after the expense had been incurred.
    - Thirteen disbursements were lacking student approval altogether.
    - Fourteen disbursements were lacking supporting documentation, such as an invoice, bill, or receipt.
    - Twelve disbursements lacked evidence of receipt of goods or services prior to disbursement.
    - Three expenses appeared to be an inappropriate use of funds.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2020-003: Student Services Account (30000) (continued)

Conditions (continued):

- Furthermore, we reviewed bank statements for the entire fiscal year and made the following observations:
  - The School wrote a total of 241 checks during the year for a total of $233,200 and made 1,360 electronic debit transactions for a total of $324,752.
  - The School paid a total of $2,693 in bank card and other bank fees during the year.
  - It appears that multiple employees of the School have access to debit cards, as several separate card numbers were identified.
  - The School incurred numerous charges for items that appear to be personal in nature, such as gas stations, convenience stores, grocery stores, drug stores, and unspecified purchases from Amazon. Without conducting a more detailed forensic audit, we are unable to determine the nature and bona-fide business purpose of these expenses.
  - Bank statements are not properly and accurately reconciled. Although QuickBooks on-line is used for accounting purposes, reconciliations are done in Excel, and they do not properly reconcile the bank balance to the accounting records. Furthermore, the June reconciliation lists numerous outstanding checks.
- We tested a sample of 10 cash receipts and found:
  - Receipts did not have adequate supporting documentation from the point of collection to the point of deposit. Without supporting documentation, we cannot determine whether all cash collected was deposited in the bank.

Cause: The School lacks oversight over the accounting function and has not implemented controls to ensure that:

- Adequate accounting records and internal controls are maintained to ensure that revenues are collected and deposited appropriately, and;
- Funds are being used for the students' benefit.

Effect: The lack of internal controls and oversight by the business office could lead to loss or misappropriation of assets.

Recommendation: We recommend that the School assign an employee in the Business Office or its back-office service provider to be responsible for the oversight of the account. This position should review bank statements and reconciliations on a monthly basis.

We further recommend that the school site bookkeeper maintain all records associated with the account for proper control of the assets and to prevent misappropriation of assets. Furthermore, back-ups should be conducted at a minimum of once per month in order to limit the potential of lost data.

Finally, we recommend the following:

- We recommend that the School discontinue the use of electronic debit cards for the bank account, as all expenses should be paid for with checks. The use of electronic debit cards exposes the School to the risk of fraudulent activity.
- As a best practice, we recommend that expenditures be approved prior to incurring the cost.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2020-003: Student Services Account (30000) (continued)

Recommendation (continued):

- We recommend that the School document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing "ok to pay" or "received" and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.
- It is important for organizations to have adequate internal controls over their fundraising events, properly evaluate the effectiveness of those events, and account for a fundraiser's financial activity. Revenue potentials are used as a budgeting and planning tool. The form serves as a sales plan that includes expected sales levels, sale prices per unit, expected cost, and net income. We recommend that revenue potentials be prepared for all major fundraising activities.
- We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales.
- Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit. We recommend the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, the Principal or Activities Advisor should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.

Views of Responsible Officials: We agree with this Finding, and are implementing the following:

1. Hiring of full-time on-site Controller position in early 2021;
2. Contracting with H&R Block or similar qualified local bookkeeping firm for a Student Services Account bookkeeper, directly responsible for student service accounts;
3. Debit card usage will be eliminated or minimized to critical purchases only under new procedure to be developed by Controller/bookkeeper;
4. All purchases from Student Services Accounts must be approved prior to purchase;
5. Required receipt (physical or electronic image) for all check payments;
6. Bookkeeper and Controller will develop revenue plans and cash control procedures for major fundraising activities;
7. Bank reconciliations for Student Services Accounts will be performed by bookkeeper and reviewed by Controller.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2020-004: Cash Disbursement Controls (30000)

Criteria: The Organization should obtain approval through a purchase order prior to making any purchases. The Organization should ensure that expenditures are paid only with supporting documentation.

Condition: During our review of the Organization's cash disbursements, 15 of 20 expenses sampled did not receive approval prior to purchase. Furthermore, 5 of 20 expenses lacked adequate supporting documentation.

Cause: The Organization did not implement controls to ensure that every purchase was approved prior to being incurred.

Effect: Cash disbursements are at risk of being made for inappropriate purposes.

Recommendation: We recommend that the Organization implement controls to ensure that all disbursements are approved by purchase order or contract before being incurred. Furthermore, we recommend that all disbursements be supported by an original invoice or receipt documenting the purpose and amount of the expense.

Views of Responsible Officials: We agree with this Finding, and are implementing the following:

1. Hiring of full-time on-site Controller position in early 2021;

2. Controller will be responsible for developing and implementing controls to ensure that all disbursements are approved by purchase order or contract before being incurred.

3. Controller will implement process to ensure that disbursements are supported by original invoice or receipt documenting the purpose and amount of expense (for all School accounts).

SECTION III - FEDERAL AWARD FINDINGS AND RESPONSES

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

The Organization expended less than $750,000 in federal awards in 2019-20; therefore, a Single Audit was not performed.

SECTION IV - STATE AWARD FINDINGS AND RESPONSES

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2020-005: Nonclassroom-Based Instruction (10000)

Criteria: California Code of Regulations (CCR) Section 11960, defines "attendance," for use in calculating charter school ADA, as occurring when "charter school pupils [are] engaged in educational activities required of them by their charter schools on days when school is actually taught in their charter schools".

Condition: The Encore High School for the Arts – Riverside credited one pupil for 9 days of attendance credit, but did not document that the pupil was engaged in educational activities on 6 of those days.

Context: The error was found for one pupil out a sample of five pupils tested at the School.

Cause: The School site personnel failed to verify that daily educational activities were documented prior to crediting attendance.

Effect: As a result of this finding, the P-2 and Annual ADA must be reduced by 0.05. When multiplied by the School's "Derived Value of ADA in Grades 9-12" of $10,258.31, the error results in a loss of $513 in LCFF funding.

Recommendation: The School has closed effective June 30, 2020, so no further action is necessary.

Views of Responsible Officials: Following auditor guidance that no action is necessary, we will not plan on filing revised attendance forms for the 0.05 ADA ($513) unless otherwise requested.

Finding 2020-006: Unduplicated Pupil Counts (40000)
This is a partial repeat of Finding 2019-002.

Criteria:
California Education Code section 42238.01 states, in part:

> "Pupils of limited English proficiency" means pupils who do not have the clearly developed English language skills of comprehension, speaking, reading, and writing necessary to receive instruction only in English at a level substantially equivalent to pupils of the same age or grade whose primary language is English. "English learner" shall have the same meaning as provided for in subdivision (a) of Section 306 and as "pupils of limited English proficiency."

California Education Code section 42238.02(b)(1) states:

> For purposes of this section "unduplicated pupil" means a pupil enrolled in a school district or a charter school who is either classified as an English learner, eligible for a free or reduced-price meal, or is a foster youth. A pupil shall be counted only once for purposes of this section if any of the following apply:
> (A) The pupil is classified as an English learner and is eligible for a free or reduced-price meal.
> (B) The pupil is classified as an English learner and is a foster youth.
> (C) The pupil is eligible for a free or reduced-price meal and is classified as a foster youth.
> (D) The pupil is classified as an English learner, is eligible for a free or reduced-price meal, and is a foster youth.

SECTION IV - STATE AWARD FINDINGS AND RESPONSES (continued)

Finding 2020-006: Unduplicated Pupil Counts (40000) (continued)

Criteria (continued):
California Education Code section 42238.02(b)(2) states:

> Under procedures and timeframes established by the Superintendent, commencing with the 2013-14 fiscal year, a school district or charter school shall annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the Superintendent using the California Longitudinal Pupil Achievement Data System.

California Education Code section 42238.02(b)(4) states:

> The Superintendent shall make the calculations pursuant to this section using the data submitted by local educational agencies, including charter schools, through the California Longitudinal Pupil Achievement Data System. Under timeframes and procedures established by the Superintendent, school districts and charter schools may review and revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

Condition: During our review of the Organization's Unduplicated Local Control Funding Formula (LCFF) Pupil Counts, we noted an error with two (2) students who were classified as English Learner (EL) eligible.

Context: The errors were noted only at the Riverside campus. The School reported two (2) pupils as eligible for FRPM and EL, but neither student qualified.

Cause: The School reclassified the pupils as not eligible for EL, but did not make the corrections in the CALPADS system.

Effect: The error results in a loss of apportionment of $1,082. Refer to the summary chart below.

		Adjusted based on eligibility		
School Site	CALPADS Reported	FRPM	EL	Adjusted Total
Encore High School for the Arts - Riverside	315	-	(2)	313

Enrollment of 809 was not affected by this finding.

Recommendation: We recommend that the School implement controls to ensure that contemporaneous supporting documentation is maintained to support all students reported for the unduplicated pupil counts and implement policies and procedures to ensure that the CALPADS is updated with changes in students' FRPM and EL designations.

Views of Responsible Officials: We are reviewing and revising our policies and procedures for CALPADS reporting of unduplicated pupils to ensure contemporaneous supporting documentation is maintained for all students reported.

ENCORE EDUCATION CORPORATION
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2020

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2019-001: Financial Closing Process	**Encore Jr./Sr. High school for the Performing and Visual Arts #0971** **Encore High School for the Arts- Riverside # 1747** Type of Finding: • Significant Deficiency in Internal Control over Financial Reporting During the course of the audit, the Organization had to make a significant amount of adjustments that were identified as a result of the audit. The closing process should include a timely reconciliation of accounts to ensure proper ending balances are being reported.	30000	We recommend the Organization update its year end closing procedures to include additional review procedures to ensure accounts and transactions are reconciled before the audit.	Not Implemented. See Finding 2020-002.
Finding 2019-002: Unduplicated Local Control Funding Formula Pupil Counts	**Encore Jr./Sr. High school for the Performing and Visual Arts #0971** Education code section 42238.02 (b)(2) requires a charter school to submit its enrolled free and reduced-price meal eligibility, foster youth and English learner pupil-level records for enrolled pupils using the California Longitudinal Pupil Achievement Data System (CalPADS). The CalPADS 1.17 and 1.18 reports should accurately report the number of students eligible for free and reduced price meals and those identified as "English Learners". During testing we compared student's family income per Free and Reduced Price Meal (FRPM) eligibility applications to the Income Eligibility Scales for 2018-19, and found that the School inaccurately reported students as eligible for free or reduced price meals.		We recommend that the organization employ additional monitoring processes to review the Free and Reduced Price Meal (FRPM) eligibility data and English Learner data to ensure that reporting errors are minimized and corrections are made on a timely basis.	Partially Implemented; See Finding 2020-006.

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2019-002: Unduplicated Local Control Funding Formula Pupil Counts (continued)	Two out of the twenty six samples selected for FRPM testing contained errors. During testing, we also verified student's English Learner classification by comparing their English Language Proficiency Assessments for California (ELPAC) results with the school's student reclassification policy. One out of the six samples selected contained errors. An error rate was applied to calculate the questioned costs below. Finding is related to Encore Jr./Sr. High school for the Performing and Visual Arts #0971.			
Finding 2019-003: ADA Reporting	**Encore Jr./Sr. High school for the Performing and Visual Arts #0971** **Encore High School for the Arts- Riverside # 1747** Pursuant to the provisions of Education Code Section 19850, the Second Principal (P2) and Annual reports of attendance submitted to the California Department of Education should be supported by written contemporaneous records that document all pupil attendance included in the charter school's Average Daily Attendance (ADA) calculations. During our testing on ADA we calculated that the Schools' P2 Reports under-reported ADA for locations Encore Jr./Sr. High school for the Performing and Visual Arts #0971 and Encore High School for the Arts-Riverside # 1747.		We recommend that the Organizations implement procedures to accurately report ADA in its P2 ADA Reports.	Implemented; however, see Finding 2020-005.