

NAVIGATOR SCHOOLS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

OPERATING:

Gilroy Prep
Hollister Prep
Watsonville Prep

**NAVIGATOR SCHOOLS
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YEAR ENDED JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Navigator Schools
Gilroy, California

Report on the Financial Statements

We have audited the accompanying financial statements of Navigator Schools (Navigator), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2019, 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 on page 1 present fairly, in all material respects, the financial position of Navigator as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on Navigator's financial statements as a whole. The CMO, Gilroy Prep, Hollister Prep, and Watsonville Prep columns in the statements of financial position, activities and cash flows as well as the accompanying supplementary schedules as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated REPORT DATE on our consideration of Navigator'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 on Navigator'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 Navigator's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Glendora, California
REPORT DATE

NAVIGATOR SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS	<u>CMO</u>	<u>Gilroy Prep</u>	<u>Hollister Prep</u>	<u>Watsonville Prep</u>	<u>Total</u>
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 105,025	\$ 1,446,093	\$ 1,165,938	\$ 93,749	\$ 2,810,805
Accounts Receivable	21,216	352,780	856,223	-	1,230,219
Prepaid Expenses and Other Assets	28,724	16,075	27,220	38,454	110,473
Total Current Assets	<u>154,965</u>	<u>1,814,948</u>	<u>2,049,381</u>	<u>132,203</u>	<u>4,151,497</u>
LONG-TERM ASSETS					
Property, Plant, and Equipment, Net	-	252,682	190,553	-	443,235
Total Long-Term Assets	<u>-</u>	<u>252,682</u>	<u>190,553</u>	<u>-</u>	<u>443,235</u>
Total Assets	<u>\$ 154,965</u>	<u>\$ 2,067,630</u>	<u>\$ 2,239,934</u>	<u>\$ 132,203</u>	<u>\$ 4,594,732</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable and Accrued Liabilities	\$ 73,794	\$ 205,871	\$ 452,311	\$ 7,206	\$ 739,182
Total Current Liabilities	<u>73,794</u>	<u>205,871</u>	<u>452,311</u>	<u>7,206</u>	<u>739,182</u>
NET ASSETS					
Without Donor Restriction	81,171	1,861,759	1,787,623	124,997	3,855,550
Total Net Assets	<u>81,171</u>	<u>1,861,759</u>	<u>1,787,623</u>	<u>124,997</u>	<u>3,855,550</u>
Total Liabilities and Net Assets	<u>\$ 154,965</u>	<u>\$ 2,067,630</u>	<u>\$ 2,239,934</u>	<u>\$ 132,203</u>	<u>\$ 4,594,732</u>

See accompanying Notes to Financial Statements.

**NAVIGATOR SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	CMO	Gilroy Prep	Hollister Prep	Watsonville Prep	Eliminations	Total
WITHOUT DONOR RESTRICTION:						
REVENUES						
State Revenue:						
State Apportionment	\$ -	\$ 1,834,580	\$ 3,288,377	\$ -	\$ -	\$ 5,122,957
Other State Revenue		535,589	471,219	-		1,006,808
Federal Revenue:						
Grants and Entitlements	-	342,388	296,272	-	-	638,660
Local Revenue:						
In-Lieu Property Tax Revenue	-	2,756,583	1,097,789	-	-	3,854,372
Contributions	380,130	8,579	3,466	425,000	-	817,175
Investment Income	6,602	-	-	-	-	6,602
Other Revenue	1,642,645	83,878	31,883	-	(1,585,646)	172,760
Net Assets Released from Restriction	-	-	103,869	-	-	103,869
Total Revenues, Net	<u>2,029,377</u>	<u>5,561,597</u>	<u>5,292,875</u>	<u>425,000</u>	<u>(1,585,646)</u>	<u>11,723,203</u>
EXPENSES						
Program Services	397,842	4,091,393	3,952,901	140,531	-	8,582,667
Management and General	1,843,983	1,136,558	1,088,364	159,472	(1,585,646)	2,642,731
Total Expenses	<u>2,241,825</u>	<u>5,227,951</u>	<u>5,041,265</u>	<u>300,003</u>	<u>(1,585,646)</u>	<u>11,225,398</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION	(212,448)	333,646	251,610	124,997	-	497,805
WITH DONOR RESTRICTION						
REVENUES						
Net Assets Released from Restriction	-	-	(103,869)	-	-	(103,869)
CHANGE IN NET ASSETS WITH DONOR RESTRICTION	-	-	(103,869)	-	-	(103,869)
CHANGE IN NET ASSETS	(212,448)	333,646	147,741	124,997	-	393,936
Net Assets - Beginning of Year	<u>293,619</u>	<u>1,528,113</u>	<u>1,639,882</u>		<u>-</u>	<u>3,461,614</u>
NET ASSETS - END OF YEAR	<u>\$ 81,171</u>	<u>\$ 1,861,759</u>	<u>\$ 1,787,623</u>	<u>\$ 124,997</u>	<u>\$ -</u>	<u>\$ 3,855,550</u>

See accompanying Notes to Financial Statements.

**NAVIGATOR SCHOOLS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019**

	<u>CMO</u>	<u>Gilroy Prep</u>	<u>Hollister Prep</u>	<u>Watsonville Prep</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in Net Assets	\$ (212,448)	\$ 333,646	\$ 147,741	\$ 124,997	\$ 393,936
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:					
Depreciation	-	47,068	18,302	-	65,370
(Increase) Decrease in Assets:					
Accounts Receivable	(19,764)	(44,799)	(388,754)	-	(453,317)
Prepaid Expenses and Other Assets	996	55,781	95,419	(38,454)	113,742
Increase (Decrease) in Liabilities:					
Accounts Payable and Accrued Liabilities	<u>(7,685)</u>	<u>(165,673)</u>	<u>59,664</u>	<u>7,206</u>	<u>(106,488)</u>
Net Cash Provided by (Used in) Operating Activities	(238,901)	226,023	(67,628)	93,749	13,243
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Property, Plant, and Equipment	<u>-</u>	<u>(78,513)</u>	<u>(105,648)</u>	<u>-</u>	<u>(184,161)</u>
Net Cash Used by Investing Activities	-	(78,513)	(105,648)	-	(184,161)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(238,901)	147,510	(173,276)	93,749	(170,918)
Cash and Cash Equivalents - Beginning of Year	<u>343,926</u>	<u>1,298,583</u>	<u>1,339,214</u>	<u>-</u>	<u>2,981,723</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 105,025</u>	<u>\$ 1,446,093</u>	<u>\$ 1,165,938</u>	<u>\$ 93,749</u>	<u>\$ 2,810,805</u>

See accompanying Notes to Financial Statements.

NAVIGATOR SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Eliminations</u>	<u>Total Expenses</u>
Salaries and Wages	\$ 5,383,563	\$ 1,455,499	\$ -	\$ 6,839,062
Pension Expense	593,997	64,195	-	658,192
Other Employee Benefits	537,364	206,433	-	743,797
Payroll Taxes	201,373	52,649	-	254,022
Management Fees	180,786	89,774	-	270,560
Legal Expenses	-	38,127	-	38,127
Accounting Expenses	-	12,425	-	12,425
Instructional Materials	442,308	23,657	-	465,965
Other Fees for Services	246,486	1,734,368	(1,585,646)	395,208
Advertising and Promotion Expenses	-	4,450	-	4,450
Office Expenses	26,563	122,293	-	148,856
Information Technology Expenses	230,975	53,327	-	284,302
Occupancy Expenses	123,524	95,399	-	218,923
Travel Expenses	34,997	155,232	-	190,229
Depreciation Expense	65,370	-	-	65,370
Insurance Expense	-	37,060	-	37,060
Other Expenses	515,361	83,489	-	598,850
Subtotal	<u>8,582,667</u>	<u>4,228,377</u>	<u>(1,585,646)</u>	<u>11,225,398</u>
Eliminations	<u>-</u>	<u>(1,585,646)</u>	<u>1,585,646</u>	<u>-</u>
Total	<u><u>\$ 8,582,667</u></u>	<u><u>\$ 2,642,731</u></u>	<u><u></u></u>	<u><u>\$ 11,225,398</u></u>

See accompanying Notes to Financial Statements.

**NAVIGATOR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Navigator Schools (Navigator) is a California nonprofit public benefit corporation and is organized to manage and operate public charter schools. The mission of Navigator is to develop students who are proficient or advanced on the California state standards test and to prepare them to excel in college and the work place.

Navigator is funded principally through state of California public education monies received through the California Department of Education. The charters may be revoked by the sponsors for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Basis of Presentation

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

Basis of Accounting

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

Use of Estimates

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

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, pension expenses, and payroll taxes which are allocated on the basis of estimates of time and effort.

Cash and Cash Equivalents

Navigator defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**NAVIGATOR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Accounts Receivable

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2019. Management believes that all receivables are fully collectible; therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost if purchased or at estimated fair value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 5 years to 10 years. Navigator capitalizes all expenditures for land, buildings, and equipment in excess of \$5,000.

Property Taxes

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

NAVIGATOR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Amounts received from the California Department of Education are recognized as revenue by Navigator based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in net assets without donor restriction, if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in net assets with donor restriction.

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes

Navigator is a nonprofit 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 School is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. The School files and exempt School return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Evaluation of Subsequent Events

Navigator has evaluated subsequent events through REPORT DATE, the date these financial statements were available to be issued.

**NAVIGATOR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure are those without donor or other restrictions limiting their use within one year of the statement of financial position date. Financial assets available for general expenditures comprise cash and cash equivalents and grants receivable for the total amount of \$4,041,024.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short term investments and money market funds.

NOTE 3 CONCENTRATION OF CREDIT RISK

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

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$65,370 for the year ended June 30, 2019.

The components of property, plant, and equipment as of June 30, 2019 are as follows:

	<u>Gilroy Prep</u>	<u>Hollister Prep</u>
Land Improvements	171,448	17,744
Equipment, Furniture and Fixtures	322,341	231,163
Total	493,789	248,907
Less: Accumulated Depreciation	(241,107)	(58,354)
Total Property, Plant, and Equipment	<u>\$ 252,682</u>	<u>\$ 190,553</u>

**NAVIGATOR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 COMMITMENTS

Navigator (Gilroy Prep) signed a facility use agreement with the Gilroy Unified School District. The agreement carries a term that coincides with Navigator's charter. The agreement does not require Navigator to pay a lease amount for the use of the property, but instead Navigator pays a supervisorial oversight fees at 3% of Navigator's general purpose entitlement and categorical block grants. The supervisorial oversight fees recorded for the year ended June 30, 2019 were \$137,771.

Navigator (Hollister Prep) signed a facility agreement with Hollister Unified School District starting July 1, 2013 which requires Navigator to pay 3% of Hollister Prep School's general purpose entitlement and categorical block grants for the property. The supervisorial oversight fees recorded for the year ended June 30, 2019 were \$132,789.

NOTE 6 EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under a multi-employer defined benefit pension plan maintained by agencies of the state of California.

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

State Teachers' Retirement System (STRS)

Plan Description

Navigator Schools contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2018, total STRS plan net assets are \$225 billion, the total actuarial present value of accumulated plan benefits is \$374 billion, contributions from all employers totaled \$4.9 billion, and the plan is 62.6% funded. The Navigator did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826, and www.calstrs.com.

**NAVIGATOR SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 EMPLOYEE RETIREMENT (CONTINUED)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The Navigator is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for the year ended June 30, 2019 was 16.28% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2017	\$ 371,226	100 %
2018	485,167	100
2019	670,287	100

NOTE 7 CHARTER MANAGEMENT ORGANIZATION

Navigator charges CMO fees to each charter for management services performed during the year. Navigator (Gilroy Prep) paid CMO fees of \$780,498 for the year ended June 30, 2019. Navigator (Hollister Prep) paid CMO fees of \$745,648 for the year ended June 30, 2019. These fees were eliminated in the financial statements.

NOTE 8 CONTINGENCIES

Navigator 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, management believes that any required reimbursement would not be material.

NOTE 9 SUBSEQUENT EVENTS

In August 2019, Watsonville Prep began serving students and on August 20, 2019 Watsonville Prep entered into a 4 year Charter School Revolving Loan for the fiscal years 2020-2023 in the amount of \$250,000.

SUPPLEMENTARY INFORMATION

**NAVIGATOR SCHOOLS
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2019**

Navigator Schools (Navigator) operates Gilroy Prep School and Hollister Prep School. Navigator is a California nonprofit public benefit corporation and is organized to manage and operate public charter schools.

Navigator began serving students at Gilroy Prep in August 2011 and the charter school is sponsored by the Gilroy Unified School District.

Navigator began serving students at Hollister Prep in August 2013 and the charter school is sponsored by the Hollister Unified School District.

Gilroy Prep charter school number authorized by the State: 1278

Hollister Prep charter school number authorized by the State: 1507

**NAVIGATOR SCHOOLS
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (CONTINUED)
YEAR ENDED JUNE 30, 2019**

The board of directors and the administrators as of the year ended June 30, 2019 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires (2 year term)</u>
Caitrin Wright	Chair	March 1, 2019
Alicia Gallegos-Fambrini	Secretary	September 1, 2019
Joyce Montgomery	Treasurer	April 2, 2020
JP Anderson	Member	June 1, 2020
John Glover	Member	July 1, 2020
Nora Crivello	Member	June 1, 2020
John Flaherty	Member	March 21, 2020
Fiaau Ohmann	Member	March 21, 2020
Victor Paredes-Colonia	Member	February 26, 2021

ADMINISTRATORS

Kevin Sved	Chief Executive Officer
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**NAVIGATOR SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2019**

	Instructional Minutes		Traditional Calendar	Status
	Requirement	Actual	Days	
Gilroy Prep				
Kindergarten	36,000	63,000	180	In compliance
Grade 1	50,400	57,575	180	In compliance
Grade 2	50,400	57,575	180	In compliance
Grade 3	50,400	59,450	180	In compliance
Grade 4	54,000	59,450	180	In compliance
Grade 5	54,000	59,450	180	In compliance
Grade 6	54,000	60,550	180	In compliance
Grade 7	54,000	60,550	180	In compliance
Grade 8	54,000	60,550	180	In compliance
Hollister Prep				
Kindergarten	36,000	55,475	180	In compliance
Grade 1	50,400	59,650	180	In compliance
Grade 2	50,400	59,650	180	In compliance
Grade 3	50,400	64,025	180	In compliance
Grade 4	54,000	64,025	180	In compliance
Grade 5	54,000	64,025	180	In compliance
Grade 6	54,000	61,250	180	In compliance

See accompanying Auditors' Report and the Notes to Supplementary Information

**NAVIGATOR SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2019**

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Gilroy Prep				
TK/K-3	230.60	230.60	230.74	230.74
Grades 4-6	173.25	173.25	173.23	173.23
Grades 7-8	112.41	112.41	112.79	113.02
ADA Totals	<u>516.26</u>	<u>516.26</u>	<u>516.76</u>	<u>516.99</u>
Hollister Prep				
TK/K-3	230.12	230.12	230.12	230.12
Grades 4-6	173.46	173.46	173.77	173.77
Grades 7-8	58.42	58.42	58.37	58.37
ADA Totals	<u>462.00</u>	<u>462.00</u>	<u>462.26</u>	<u>462.26</u>

See accompanying Auditors' Report and the Notes to Supplementary Information

**NAVIGATOR SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

	<u>Gilroy Prep</u>	<u>Hollister Prep</u>
June 30, 2019 Annual Financial Report Fund Balances (Net Assets)	\$ 1,877,713	\$ 1,767,572
Adjustments and Reclassifications:		
Increase (Decrease) of Fund Balance (Net Assets):		
Cash and Cash Equivalents	(5,531)	5,531
Accounts Receivable	(22,744)	(12,477)
Prepaid Expenses and Other Assets	14,227	27,220
Property, Plant, and Equipment, Net	(1,683)	-
Accounts Payable and Accrued Liabilities	(223)	(223)
Net Adjustments and Reclassifications	<u>(15,954)</u>	<u>20,051</u>
June 30, 2019 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 1,861,759</u>	<u>\$ 1,787,623</u>

See accompanying Auditors' Report and the Notes to Supplementary Information

**NAVIGATOR SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

PURPOSE OF SCHEDULES

NOTE 1 SCHEDULE OF INSTRUCTIONAL TIME

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

NOTE 2 SCHEDULE OF AVERAGE DAILY ATTENDANCE

Average daily attendance is a measurement of the number of pupils attending classes of Navigator. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

NOTE 3 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS

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



**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
Navigator Schools
Gilroy, 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 Navigator Schools (Navigator), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated REPORT DATE.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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 Navigator'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Glendora, California
REPORT DATE



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Navigator Schools
Gilroy, California

We have audited Navigator Schools' (Navigator) compliance with the types of compliance requirements described in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2019. Navigator's state compliance requirements are identified in the table below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Navigator's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the Navigator's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of Navigator's compliance.

Compliance Requirements Tested

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

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
Before/After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

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

Opinion on State Compliance

In our opinion, Navigator complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each state program is not modified with respect to this matter.

The School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Glendora, California
REPORT DATE

**NAVIGATOR SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
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

FINANCIAL STATEMENTS:

There were no findings or questioned costs related to the basic financial statements for June 30, 2019.

STATE AWARDS (RELATED TO THE HOLLISTER PREP LOCATION ONLY):

2018 – 001 Unduplicated Local Control Funding Formula Pupil Counts 40000

Criteria: 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.”

Condition: During testing of Hollister Prep we compared students’ 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.

**NAVIGATOR SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

2018 – 001 Unduplicated Local Control Funding Formula Pupil Counts

40000

Effect: Hollister Prep is not in compliance with Education code section 42238.02 (b)(2). The 1.17 and 1.18 Reports contained errors as follows:

Charter School Audit Adjustments to CALPADS Data - Hollister Prep School, Inc. for June 30, 2019

Original		Updated		Net Change		LCFF Entitlement		
Enrollment Count	Unduplicated Pupil Count	Enrollment Count	Unduplicated Pupil Count	Enrollment Count	Unduplicated Pupil Count	Original Entitlement	Revised Entitlement	Adjustment
480	300	480	288	---	-12	3,227,766	3,227,766	-

Cause: The School was either unable to provide meal applications, or meal applications were marked as denied and erroneously entered into School's system and submitted to CalPADS.

Questioned Costs: A full file review was conducted, and as a result 11 students were included in the CalPADS report as eligible for free or reduced meals for which supporting documentation indicated they were not eligible. Revised entitlement had no impact on LCFF Entitlement.

Repeat Finding: This is not a repeating finding.

Recommendation: We recommend that the School employ additional monitoring processes to review the Free and Reduced Price Meal (FRPM) eligibility data to ensure that reporting errors are minimized and corrections are made on a timely basis.

Views of responsible officials and planned corrective actions: The management of Navigator Schools accepts this finding. As a result of this audit, the School has developed additional monitoring processes to ensure accuracy in the reporting of student eligibility for the Free and Reduced Lunch Program (FRPM). The monitoring process includes having three independent persons review the income verification form before submitting to state.

**NAVIGATOR SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

There were no findings in the prior year.



CliftonLarsonAllen LLP
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To the Board of Navigator Schools
Gilroy, CA

We have audited the financial statements of Navigator Schools as of and for the year ended June 30, 2019, and have issued our report thereon dated REPORT DATE. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards and the 2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, published by the Education Appeals Panel* as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Navigator Schools are described in Note 1 to the financial statements.

As described in note 1 the School changed accounting policies related to the change in accounting principle by adopting Financial Standards Board (FASB) Accounting Standards Update No. 2016-14. Presentation of Financial Statements of Not-for-Profit Entities,

No new accounting policies were adopted and the application of existing policies was not changed during 2019, other than that noted above.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no accounting estimates affecting the financial statements which were particularly sensitive or required substantial judgments by management.

Financial statement disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated REPORT DATE.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Significant findings or issues that were discussed, or the subject of correspondence, with management

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 students' family income per Free and Reduced Price Meal (FRPM) eligibility applications to the Income Eligibility Scales for 2018-19, and found that Hollister Prep School inaccurately reported students as eligible for free or reduced price meals. The effect is that Hollister Prep School is not in compliance with Education code section 42238.02. And the 1.17 and 1.18 reports contain errors as outlined in the Schedule of Findings and Questioned Costs of the audited Financial Statement Report for 2018-19.

Other information in documents containing audited financial statements

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

With respect to the schedules required by the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel (Local Education Agency Organization Structure, Schedule of Instructional Time, Schedule of Average Daily Attendance, Reconciliation of Annual Financial Report with Audited Financial Statements), accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated REPORT DATE.

The supplementary information accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Recent accounting standards

Our promise is to get to know you and help you. For your consideration, we provided recent accounting standards applicable to your entity.

Revenue recognition –

- Effective for fiscal years beginning after December 15, 2017 for public entities and December 15, 2018 for nonpublic entities. For your entity – June 30, 2020's financial statements. Early adoption is permitted.
- Principles-based revenue standard to be applied to all industries.
- 5-step process for revenue recognition.
- Recognize revenue when an entity transfers goods or services to a customer, the amount recognized should represent the consideration to which the entity expects to be entitled.

Statement of cash flows –

- Effective for fiscal years beginning after December 15, 2017 for public entities and December 15, 2018 for nonpublic entities. For your entity – June 30, 2020's financial statements.
- Streamlines activities between cash and restricted cash as operating, investing or financing, or as a combination of those activities.
- Provides explanation for the change in cash, cash equivalents and restricted cash.

Grants and Contracts –

- Effective for fiscal years beginning after June 15, 2018 for public entities and December 15, 2018 for nonpublic entities. For your entity – June 30, 2020's financial statements.
- Provides decisions trees to assist in evaluating transactions in determining revenue recognition of grant and contracts.
- Defines nonreciprocal transactions (contributions) and conditional contributions that have been placed on the resourced provided.
- Conditional contributions only if both criteria exist:
 - Contributor retains either a right of return to the resources provided, and,
 - An entity must overcome a barrier in order to be entitled to the resources provided.
- Refers to the revenue recognition standard for reciprocal transactions (exchange).

Leases –

- Effective for fiscal years beginning after December 15, 2018 for public entities and December 15, 2019 for nonpublic entities. For your entity – June 30, 2021's financial statements.
- Requires lessees to recognize the assets and liabilities arising from all leases on the statement of financial position.
- A lessee should recognize the liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term.
- Continued differentiation between finance and operating leases.

* * *

This communication is intended solely for the information and use of the Board and management of Navigator Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Glendora, CA
REPORT DATE