

# Summit Public Schools California Audit Meeting - December 2, 2020

## Opening Session Transcript (Audio Length: 33 minutes 57 seconds)

**Joyce:** Here and for your time today, the first thing we'd like to do on the agenda is to approve the agenda and the minutes from a year ago, essentially. It's hard to believe that it's been that long, but here we are. So, if there are no changes to the minutes, I would like a motion to approve the minutes and then a motion to approve the agenda.

**Andrew:** I will propose a motion to approve the minutes.

**Diego:** Second.

**Joyce:** All those in favor.

**Diego:** Aye.

**Joyce:** Great. Thank you very much. And then if I can have a motion to approve the agenda, please.

**Andrew:** So moved.

**Diego:** Second.

**Joyce:** All those in favour.

**Diego:** Aye

**Andrew:** Aye.

**Joyce:** Very good, thank you, the next thing.....

**Valeria:** One thing that I did want to highlight, sorry for interrupting you Joyce, is that, due to this being an open public meeting, following the Brown Act guidelines, this meeting will be recorded. Just wanted to highlight that.

**Joyce:** And do we also need to do the roll call vote? Okay. So are you starting to record? Oh, it's

recording now, Okay, great. All right, so do you want to do the roll call, vote for the agenda, and the minutes, please?

**Valeria:** Yes, for the minutes if I could have a roll call, Andy.

**Andrew:** Aye.

**Valarie:** Diego.

**Diego:** Aye.

**Valeria:** For the approval of the agenda. If I could have a roll call, Andy?

**Andrew:** Aye.

**Diego:** Aye.

**Valeria:** Thank you.

**Joyce:** Great, so the next item on our agenda is public comment. Valeria, are there any members of the public and or any members who want to comment?

**Valeria:** No, at the moment there are no members of the public present in this meeting. And no member of the public that has filled out a public speaker form.

**Joyce:** All right. Can we go ahead and move on then?

**Valeria:** What we can do at this moment is go ahead with the meeting and if someone from the public does show up at our meeting, we can go back and open up public comments again.

**Joyce:** Before we get started, diving into the audit, just wanted to call your intention to how we're going to handle the close session, which is the employment evaluation of staff. My understanding is that there is a secondary zoom meeting. Valeria will be the host of that. She will jump on there, make sure you're all there, transfer the host to one of you all and then come back to this meeting.

**Andrew:** Okay.

**Joyce:** Does that sound right, Valeria? Okay, great, just wanted to put that out there. We get to dive into the heart of the meeting, which is the 1920 audit for summit public schools. Included in your

packet was our memo highlighting the audit, required communication from the auditing firm, the letter regarding the bond covenants, the consolidated audit, the 990 information return and drop resolution for the summit public schools board. Wade do you want into jump into the audit?

**Wade:** Sure, in the interest of time, let me understand, how long has the committee members have had to review the materials.

**Andrew:** We got them last week

**Wade:** Okay.

**Joyce:** They got them the Friday, the 20th of November.

**Andrew:** That's right.

**Joyce:** So they've had them for two weeks.

**Wade:** I'd rather just go through the highlights and then if you had any specific questions about those materials of, well answer at that time. First thing is that, the opinion on the financial statements is an unmodified opinion. Second thing, is we did a federal audit as well, and there were no issues with the federal audit, that's an unmodified opinion as well. There were no compliance issues and then we also did a state compliance audit, which was required by the state of California and we didn't have any issues or findings related to that section of our audit. The other thing is, as a result of all of those things that I just meant mentioned, the audit was conducted under governmental auditing standards, which is a step up from a normal financial statement audit. We looked at internal control, as well as compliance and didn't have any issues under the governmental auditing standards that we applied. As a result of the audit, we also look at a couple of other entities that are consolidated into Summit Public Schools, and that is community high school foundation. We have Summit Public School of Washington, which is also is a report that is submitted to the state of Washington under Gasby guidelines and so, we've got a draft of that already done for review and that's already gone through our second review as well. As soon as management is ok or they have any questions, that one will be ready to go as well.

The required is the document you see in front of you right now, this lays out all the required things that we need to talk about. The first is accounting policies, there were 3 new CA accounting standards that were implemented this year. Revenues from contracts and customers, which was a

clarification of how to record revenue from contracts and customers, didn't really impact the way that you recognized your revenue. The next was restricted cash in the statement of cash flows, which means that now in the statement of cash flows were required to also include the restricted cash.

The last one is to clarify the recognition of revenue for non-profit organizations or contributions received and contributions made. That didn't result in any financial changes from the way you were recognizing the revenue in the past. There were no transactions entered during the year where there was a lack of authoritative guidance or consensus. All transactions have been recognized in the financial statements in the proper period. There are some accounting estimates that management needs to make in order to prepare the financial statements, but none of those accounting estimates, as we look at the financial statements were particularly sensitive or required substantial judgments by management. Financial statement, disclosures, they were all neutral, consistent, clear as well as in line with what the state of California wants to see in your financial statement, footnotes, next page.

We didn't have any difficulties encountered in performing the audit, even though, it was all virtual this year, and it went pretty well. Uncorrected misstatements, this is whether or not we had any adjustments that were not material, but were not made. We did not have any of those. We have some adjustments that were the result of the audit procedures and also PBC adjustment. They are connected to this letter as well, at the bottom. I would say nothing out of the ordinary for a Charter School audit, when you're getting information, sometimes fairly late, after the year ends. There is going to be some closing adjustments that need to be made.

Disagreements with management, we didn't have any. We will be receiving a management representation letter, probably dated today. Management consultations with other independent accountants, we're not aware of any. We didn't have any significant issues discussed with the bench prior to our retention. We did do a financial statement procedures related to the group financial statements, related to the consolidation. We didn't have any problems with that. There are other information in the audit financial statements, including the federal expenditure schedule, as well as on the next page. A lot of state required schedules in that second page, as well as, additional supplementary information related to the obligated group for the bond issues.

There is going to be a new standard coming out in two years, of which have been in the works for about 10, maybe 15 years. Because of COVID, they extended that one more year out to 2023, next page. Here is our only our adjustment, was a work in progress and accounts payable. As you can see, this is for a retainage, but there's really no effect on net assets. It's kind of just grossing up your

assets and grossing up the accounts payable for that retainage on a construction contract, but it's not what I would consider to be a particularly sensitive or concerning adjustment, next page. There is also going to be a report that we issue to show that the bond covenants have been met. This is the report that we'll be submitting and the next page.

This is the start of the financial statements. Do we have any questions on the required communications adjustments, covenant certifications? Okay. I see a shaking of heads. This is the financial statement. It shows all the different entities that are included in these financial statement. We've got all the California charter schools, Washington charter schools, and the community high school foundation and their related LLCs that holds property. I'm going to have you move two pages up, that's the table of contents. This is our independent audit report, I already said it was unmodified. We can move on to the next page.

What we do is we have a balance sheet or statement financial position that gives it by column for each of those entities. We're required in the state of California to show each individual Charter school, and then some of the public Washington, which is it's got its own column, will also have a set of financial statements that reports the specific Charter schools related to Washington. Can you move it forward just a little bit? In total, you can see there, we have net assets of 63 million, which is very healthy from a standpoint of current assets. You're looking at 64 million dollars and current liability is the 12, almost 13 million dollars. The current ratio is pretty good, and also you have debt, related to those facilities and property plant equipment up above. Your assets are, your liabilities are supported by the physical asset. You would want to go down the next page. We have the same type of deal. All of the financial statements are broken up by the individual charter schools in the state of California, as well as the other entities. Most of your revenue is coming from state aid, federal revenue, and property and lie taxes, as well as contributions, and other revenue, which is then eliminated out on the next page.

There is some revenue that's being generated between individual charter schools and SPS home office. Summit Public school has their own office as well, but those get eliminated. There are some revenues that are passing in between the community high school foundations for rent of facilities. That is eliminated in the financial statements. You get to a total of 76 million in consolidated revenue for the year, net change. When all is said and done, 4.6 million to the positive, which is great, go to the next one.

This is the statement of functional, actually, it's not titled correctly, so we need to make that change.

This is data, no expenses, and this essentially breaks down all the expenses by natural classification, just so you can see how, where most of your money is being spent is in the wages and salaries. Those types of expenses, as well as information technology, other or service and occupancy cost, which is very typical for a charter school. Cash Flow statement, I'm not going to go into a great amount of detail unless anybody has any questions. We did have the proceeds from debt this year for the PPP loan program, from the federal program, something a little bit different than in prior years. That is the one change, that additional proceeds contributed, next page, to an increase of cash of about 4 million dollars. It did help increase the cash from the previous year, next page. Just quickly going through this is the state, these are all the footnotes, these are all boilerplate from the beginning of note one. **[inaudible 16:00]** There is one rate that we still have to update, which we're going to be able to do after this meeting, related to the Washington report. We updating that rate, they really haven't changed too much. Keep on going.

Operating leases, long term debt disclosures, lots of disclosures toward the debt. Measure G that we also have to look at as a part of the measure G partial revenue from the West Contra Costa County. Now note eight, we do have some conditional grants that are sitting out there, which is going to be hopefully recognized over the next three years, about 2 million dollars. Those are committed grants, you just need to do the various milestones to achieve the revenue and then we have a contingency footnote, the next page, about COVID. Every audit report you'll see this year will have something similar to this related to COVID-19. A lot of these schedules are all just regular schedules that are required in the financial statements.

Scroll down a little bit more for the state. This one changed a little bit, go back up a little bit. We did have a disclosure related to COVID credited days that you had and it shows how many structural moments you actually had verses related to COVID-19 school closures, and then your total instructional minutes, keep on going. You'll notice that the second-period report is exactly as the annual report is, and that is because ADA was essentially frozen at the end of February, so no other further calculations were done after February 2020, keep on going.

This is a federal schedule that shows you how much in federal funding, you get about, I can't read that is that 2.6 million that looks like about 2.6. Those are all your federal funds keep on going. These are obligated group schedules, keep on going. This will help it, in supplying information to the bond, folks that are looking at the covenants. From this point forward, there's really not any more than I haven't told you at the beginning, all of our reports are unmodified. There were no findings. Once you

are down to the very end of the report, just to verify and no findings last year. Okay. Now we've got the tax return, you want to jump into the tax return? Does anybody have any questions about the audit? Okay. Somebody you might be muted, Andrew.

**Andrew:** Can I just ask a couple of process questions?

**Wade:** Sure

**Andrew:** To some extent for the record here, how many organizations of this type have you audited, let's say this year, roughly?

**Wade:** 250.

**Andrew:** Okay, 250, how many would have fall into this category with the standards that you've used? Both the state and the federal standards of having no findings?

**Wade:** About 70%, do a pretty good job.

**Andrew:** Okay, this notion that there are no findings, nothing significant in any way...

**Wade:** No, I will tell you that it's an iterative process, especially as it relates to charter schools.

**Andrew:** Yeah.

**Wade:** A lot of the compliance requirements are, are, we've kind of learned as years have gone by, and there's been more and more encroachment by the department of education. They now submitted an audit guide that we have to follow, then we have to figure out exactly how you stay in compliance with all.

**Andrew:** Yeah.

**Wade:** The audit guidelines.... Joyce, Gavin and Matt and their team talk regularly with us about any upcoming things that are happening.

**Andrew:** Yeah.

**Wade:** For instance, this year, we still don't have a state audit guide, that's been issued. We still don't have any audit guidance on the Cares Act funding that came from the federal government through the CDE.

**Andrew:** Yeah.

**Wade:** We are watching that to we will make sure that Joyce and her team have all the information that they need to prepare. I would say that this year went very well, in terms of the compliance. Compliance can be a little tricky and a little can trip up, because you're some of the compliance is decentralized, that's not in Joyce's office. She doesn't necessarily have control of all of the compliance pieces that are happening at the school level.

**Andrew:** Yeah.

**Wade:** Where taking attendance and that sort of thing. That all went really well. We didn't have any findings related to that. From the federal standpoint, I think that's one area that Joyce and her team has done a lot of work on making sure that they're in compliance with federal requirements, because they can range. They can vary from year to year in a couple of ways. One is the programs can change, and two the programs that we're selecting change, from year to year. We do a lot of prep work and Pre-audit, testing work to determine which program we're going to test. We try to get as much of that stuff done before the end of the year as we can.

**Andrew:** Yeah.

**Wade:** So, yeah it went really well and there were no findings.

**Andrew:** Good, thank you.

**Wade:** Yeah, there's a tax return that also gets filed. The due date for this tax return was the 15th of November. Obviously, we're past that, but we have extended the tax return all the way out to May 3rd, 15th of next year, but we obviously, weren't not going to wait to file that return. This is the tax return, essentially, it's a lot of the information that was on the SPS standard columns of California Charter schools. That's, what's contained in summit public schools corporation. A lot of this information is just coming straight from those audited financial statements. There is a lot of questions, as you can see that, we just are answering to determine what kind of schedules we need to include for informational purposes. Nothing really out of the ordinary, other than the fact that we do have to do a schedule K for bond issues. We do have to do reconciliation statement for the audit, since it had an audit, if you move on to the next page. A lot of questions just to determine which forms we're going to use, keep on going.

Now, this is the area that is all of the page that a lot of people look at, how are you governing the organization and what are your policies? As you can see, the organization has all of, many of the required policies. I think all of the required policies that the IRS is asking for you to document, we have that, next page. Another sensitive page related to salary information. We have the board, all the key officers and key employees listed here, keep on going.

Then we talk about, the big vendors that you might be having and whether or not they're related at all. This is just income statement, next page. Expense schedule, next page, balance sheet, same stuff, keep on going. You'd find on the audit report matches up, keep on going, and a financial statement reporting that you've conducted an audit on a consolidated basis, as well as conducted the federal award audit. The reason why you're a public charity and not a private foundation, your school. That has nothing on these next page. Now schedule of contributors, we have required to list all certain contributors over a certain amount of money, that's all listed here. These are your kind of your bigger donors and what we do to do, what we're tracking here is we're making sure that, for a three, for a four kind, of a four year rolling average, that you're not getting money from one particular private foundation or non-public charity. You make sure you keep your public charity status and you're not being used as kind of a conduit for a private foundation, which is not the case. We track their cumulative to make sure they're over a certain percentage. Okay, keep on going.

Flowing through schedule D does not applies to you here. This is that we do have this financial statement footnote as to why you're exempt organization, your school and the school information. This is some information related to the Community High School foundation grant to build the completion of the project, compensation, information and policies and procedures. Everything looks good there, and then a lot of supplemental information to all of the different forms. We just went through nothing or shattering here to report related to the things that reorganizations and the disclosure of those or organizations, state return and the state's version of the return. We just went through, thought shorter.

Okay, that's it, we're at the public employment evaluation, close session. I would just like to say Joyce, Gavin, thank you for all your help during the audit process. Marlene is pretty happy about how things went, even though we were in a virtual setting this year. I think both of our organizations are kind of ready for this, in terms of the technology that we use. Appreciate you being on board using our new system this year. We hope it was helpful and if AIE, if you've got any problems with it, let us know. We're always refining it. That's it for me.

**Andrew:** Can I just ask one last question?

**Wade:** Sure.

**Andrew:** So, you've mentioned several times that this was a virtual audit. Does that mean there were no site visits?

**Wade:** There were no site visits due to COVID today, this

**Andrew:** Just in terms of, again, housekeeping and making sure we've asked the question. Are there any elements of the audit or any areas of review where you feel that there is additional risk to the integrity of the audit because of the virtual nature of your work?

**Wade:** No. I mean, we didn't identify any which if you sit down and plan the audit, if there are any areas of concern as an increased risk of material misstatement, we apply certain audit procedures to that. What we did this year as an element of unpredictability, we are using more data analytics every year. We did data analytics on their salaries and benefits. We did take their data and run it through our analytical programs and we didn't have any issues with that. Any anomalies were explainable and I think what you're getting. What you're seeing in the profession is because everything's going electronic, you've got essentially electronic bill pay electronic approval process. What we're doing is that, we're looking at that type of data analytics to help us do our audit better than maybe we've ever done in the past.

I mean, you can sit and vouch for invoices, paper invoices all day long and you may not uncover an area where you're talking about a material statement to the financial statement. What we're interested in is, we also looked at journal entries and added a big area of potential risk. When n you look at a charter school audit, the biggest risks of material misstatement are the two kinds of cornerstones, of risk on any audit. That is revenue recognition, whether or not they've recognized revenue appropriately or made up revenue and management override of internal controls. Which is, oftentimes done through journal entries. We do a full test of journals entries that's going to probably be next year's added emphasis is more stuff on journal entries. I don't see any issue nowadays, with the fact that we can't be there in person.

One thing is that in-person helps with is just verifying of assets A and to see that these schools exist, right?

**Andrew:** Yeah

**Wade:** I've been, we visited these schools, we've seen these schools, and I know where these schools are physically from a location standpoint. We didn't need to do that this year, I've already done that. If they had a new school or something like that, or even Washington, what we're relying there on is our information that we're interviewing the state of Washington as well. We've got people in the state controller's office, and we're asking certain questions to help us verify that. Hey! This is indeed an actual school, that's not just a fictitious school, obviously. Those types of procedures, you don't need to be there in person to do those types of procedures.

**Andrew:** Got it. Okay. That's great. I, I appreciate you given me a very complete answer.

**Wade:** I would just like to add that from an in person perspective, we use video meetings quite a bit to try to interview people, to be able to see their faces, as we're interviewing. It's obviously from an audit standpoint, it's better for us to be in person and do the interview in person, but this year just wasn't possible.

**Andrew:** Got it. Good.

**Wade:** Okay.

**Joyce:** So I guess.