



PAZLO EDUCATION FOUNDATION

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2022**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA CHARTER SCHOOLS**

APEX Academy (Charter No. 1459)
Matrix for Success Academy (Charter No. 1961)

**PAZLO EDUCATION FOUNDATION
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JUNE 30, 2022**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PazLo Education Foundation
Los Angeles, California

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of PazLo Education Foundation (the "Organization") which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PazLo Education Foundation as of June 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PazLo Education Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PazLo Education Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PazLo Education Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about PazLo Education Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 our report dated December 7, 2022, on our consideration of PazLo Education Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PazLo Education Foundation's internal control over financial reporting and compliance.

San Diego, California
December 7, 2022

PAZLO EDUCATION FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

Current assets

Cash and cash equivalents	\$ 1,685,455
Accounts receivable	1,922,351
Prepaid expenses	<u>70,908</u>
Total current assets	<u>3,678,714</u>

Noncurrent assets

Deposits	15,000
Capital assets, net	<u>43,766</u>
Total noncurrent assets	<u>58,766</u>
Total Assets	<u>\$ 3,737,480</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 697,042
Deferred revenue	461,095
Loans payable	<u>50,004</u>
Total liabilities	<u>1,208,141</u>

Net assets

Without donor restrictions	<u>2,529,339</u>
Total net assets	<u>2,529,339</u>
Total Liabilities and Net Assets	<u>\$ 3,737,480</u>

The notes to the financial statements are an integral part of this statement.

**PAZLO EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Without Donor Restrictions</u>
SUPPORT AND REVENUES	
Federal and state support and revenues	
Local control funding formula, state aid	\$ 4,112,209
Federal revenues	2,147,316
Other state revenues	945,688
Total federal and state support and revenues	<u>7,205,213</u>
Local support and revenues	
Payments in lieu of property taxes	1,209,322
Other local revenues	48,312
Total local support and revenues	<u>1,257,634</u>
Total Support and Revenues	<u>8,462,847</u>
EXPENSES	
Program services	6,025,607
Management and general	1,930,041
Total Expenses	<u>7,955,648</u>
CHANGE IN NET ASSETS	507,199
Net Assets - Beginning	<u>2,022,140</u>
Net Assets - Ending	<u>\$ 2,529,339</u>

The notes to the financial statements are an integral part of this statement.

**PAZLO EDUCATION FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022**

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 2,939,499	\$ -	\$ 2,939,499
Non-certificated salaries	444,435	723,293	1,167,728
Pension plan contributions	744,259	849	745,108
Payroll taxes	130,577	62,071	192,648
Other employee benefits	597,602	138,963	736,565
Total personnel expenses	<u>4,856,372</u>	<u>925,176</u>	<u>5,781,548</u>
Non-personnel expenses			
Books and supplies	193,744	27,406	221,150
Insurance	-	84,691	84,691
Facilities	394,083	227,442	621,525
Professional services	442,078	505,184	947,262
Interest expense	-	1,771	1,771
Depreciation	-	26,486	26,486
Authorizing agency fees	135,167	-	135,167
Other operating expenses	4,163	131,885	136,048
Total non-personnel expenses	<u>1,169,235</u>	<u>1,004,865</u>	<u>2,174,100</u>
Total Expenses	<u>\$ 6,025,607</u>	<u>\$ 1,930,041</u>	<u>\$ 7,955,648</u>

The notes to the financial statements are an integral part of this statement.

**PAZLO EDUCATION FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 507,199
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	26,486
(Increase) decrease in operating assets	
Accounts receivable	(470,717)
Prepaid expenses	(41,613)
Increase (decrease) in operating liabilities	
Accounts payable	215,965
Deferred revenue	130,358
Net cash provided by (used in) operating activities	<u>367,678</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	<u>(6,894)</u>
Net cash provided by (used in) investing activities	<u>(6,894)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on loans payable	<u>(49,998)</u>
Net cash provided by (used in) financing activities	<u>(49,998)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	310,786
Cash and cash equivalents - Beginning	<u>1,374,669</u>
Cash and cash equivalents - Ending	<u>\$ 1,685,455</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 1,771</u>

The notes to the financial statements are an integral part of this statement.

**PAZLO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

PazLo Education Foundation (the “Organization”) was formed as a nonprofit public benefit corporation on October 20, 2011 for the purpose of operating California public schools located in Los Angeles. The Organization works with vulnerable student populations throughout the Los Angeles area with a goal to increase college opportunities for their students. The Organization operates two public charter schools, referred to collectively as “the Charters.” Additional information on each school is as follows:

Apex Academy (California Charter No. 1459) is authorized to operate through the Los Angeles Unified School District (the “authorizing agency” or “LAUSD”). The current charter petition covers a five-year term expiring on June 30, 2022. Per AB 130, the new term end date is June 30, 2024. APEX Academy is a conversion school that initially offered classes as an innovative small school under LAUSD in 2008 and was converted to an independent charter school in 2012. APEX Academy serves grades 7 to 12 through site-based instruction.

Matrix for Success Academy (California Charter No. 1961) is also authorized by the Los Angeles Unified School District. The current charter petition covers a five-year term expiring on June 30, 2023. Per AB 130, the new term end date is June 30, 2025. Matrix for Success Academy was numbered by the State Board of Education as an independent start-up charter school in May 2018 with classes beginning in Fall 2018. Matrix for Success Academy serves grades 10 to 12 through nonclassroom-based instruction.

Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

B. Basis of Accounting

The Organization’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

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 July 1, 2018. Under the Guide, PazLo Education Foundation is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

The Organization also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is only used to the extent that internal accounting for multiple charter school operations is necessary and is not used for external financial statement presentation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

E. Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as “net assets released from restrictions.” Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

F. In Lieu of Property Tax Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the authorizing agency. In lieu of distributing funds out of property tax proceeds, the authorizing agency makes monthly payments to the Charters. Revenues are recognized by the Charters when earned.

G. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management’s estimates.

H. Cash and Cash Equivalents

PazLo Education Foundation considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

I. Investments

The Organization’s method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities. Investment return is presented net of any investment fees.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Organization establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2022, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. Capital Assets

PazLo Education Foundation has adopted a policy to capitalize asset purchases over \$1,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

L. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

M. Income Taxes

PazLo Education Foundation is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As an educational institution, the Organization is not required to register with the California Attorney General as a charity.

The Organization's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Organization's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

PAZLO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New Accounting Pronouncement

Leases

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease. The new lease standard is effective for private nonprofits with fiscal years beginning after December 15, 2021. The Organization will determine the impact on the financial statements once required to implement in the 2022-23 fiscal year.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2022, consists of \$1,685,455 in cash in banks held in non-interest bearing accounts. As of June 30, 2022, \$1,441,908 of the PazLo Education Foundation's bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held at one or more banks. Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. PazLo Education Foundation does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2022, consists of the following:

Local control funding sources, state aid	\$	869,143
Federal sources		853,951
Other state sources		33,008
In lieu property tax payments		52,817
Other local sources		113,432
Total Accounts Receivable	\$	1,922,351

NOTE 4 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2022 consists of the following:

	Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Property and equipment				
Furniture and equipment	\$ 195,007	\$ 6,894		\$ 201,901
Less accumulated depreciation	(131,649)	(26,486)		(158,135)
Capital Assets, net	\$ 63,358	\$ (19,592)	\$ -	\$ 43,766

PAZLO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2022, consists of the following:

Due to grantor government	\$	358,552
Vendor payables		100,083
Compensated absences		83,109
Salaries and benefits		15,813
Due to authorizing agency		139,485
Total Accounts Payable	\$	<u>697,042</u>

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30, 2022, consists of the following:

Federal sources	\$	121,722
State sources		339,373
Total Deferred Revenue	\$	<u>461,095</u>

NOTE 7 – LOAN PAYABLE

In September 2019, the Organization entered into a loan agreement to borrow \$150,000 through the Charter Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The loan was to assist with operations of Matrix for Success Academy. The loan is to be repaid over a three-year period ending January 2023. The revolving note bears an annualized interest rate equal to the “prime rate” of 1.976%. During the fiscal year ended June 30, 2022, the Organization made payments of \$51,769, which included \$49,998 of principal and \$1,771 of interest expense. As of June 30, 2022, the outstanding balance on the loan was \$50,004 which is due in the fiscal year ending June 30, 2023.

NOTE 8 – NET ASSETS

As of June 30, 2022, the Organization did not hold any net assets with donor restrictions. Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Organization. At June 30, 2022, the Organization’s net assets without donor restrictions consist of the following:

Net investment in capital assets	\$	43,766
Undesignated		<u>2,485,573</u>
Total Net Assets without Donor Restrictions	\$	<u>2,529,339</u>

As part of the charter petitions with LAUSD, the Charters are to hold cash reserves equal to five percent of total expenditures or \$390,818 for the fiscal year ended June 30, 2022. It is management’s belief that this reserve is held within the undesignated amount of net assets without donor restrictions noted above.

PAZLO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization’s financial assets as of June 30, 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

Financial Assets	
Cash and cash equivalents	\$ 1,685,455
Accounts receivable	1,922,351
Prepaid expenses	70,908
Total Financial Assets, excluding noncurrent	<u>\$ 3,678,714</u>
Contractual or donor-imposed restrictions	
Reserves per charter petitions	<u>(390,818)</u>
Financial Assets available to meet cash needs	
for expenditures within one year	<u>\$ 3,287,896</u>

NOTE 10 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charters have made such election. Certificated employees are members of the California State Teachers’ Retirement System (CalSTRS). Non-certificated employees or those who do not qualify to participate in CalSTRS are offered social security as an alternative plan.

California State Teachers’ Retirement System (CalSTRS)

Plan Description

PazLo Education Foundation contributes to the California State Teachers’ Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 10.25% or 10.205% of their 2021-22 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2021-22 was 16.92% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization’s contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2021-22	\$ 441,138	100%
2020-21	\$ 410,632	100%
2019-20	\$ 464,303	100%

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for the Charters is estimated at \$299,194. The on-behalf payment amount is computed as the proportionate share of total 2020-21 State on-behalf contributions.

NOTE 10 – EMPLOYEE RETIREMENT PLANS (continued)

Defined Contribution Plan

The Organization offers a 401(k) retirement plan to each of its qualifying employees. Employer and employee contributions are used to purchase annuity contracts for each participant employee. Employer matching contributions are made at the rate equal to 100% of the first 3% of elective deferrals for each employee who is eligible for employer contributions. Additionally, the employer may elect to make a discretionary contribution for each qualifying employee for each plan year. The amount of employer contributions used to purchase annuity contracts for the year ended June 30, 2022 was \$4,776.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Charter School Authorization

As mentioned in Note 1A, the Charters operated by PazLo Education Foundation are approved to operate as a public charter school through authorization by the Los Angeles Unified School District. As such, the Charters are subject to the risk of possible non-renewal or revocation at the discretion of its authorizing agency if certain criteria for student outcomes, management, and/or fiscal solvency are not met.

On July 9, 2021, the Governor of California approved Assembly Bill 130 (AB 130). Effective July 1, 2021, AB 130 added a provision within the California Education Code whereby all charter schools whose term expires on or between January 1, 2022, and June 30, 2025, inclusive, shall have their term extended by two years. As a result, the new term expiration dates are June 30, 2024 for APEX Academy and June 30, 2025 for Matrix for Success Academy.

Governmental Funds

PazLo Education Foundation 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 expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Multiemployer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Organization's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Organization to make payments to the plan, which would approximate the Organization's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Organization's share of withdrawal liability is approximately \$2,117,120 as of June 30, 2021. The Organization does not currently intend to withdraw from CalSTRS. Refer to Note 10 for additional information on employee retirement plans.

Facility Use Agreement

PazLo Education Foundation holds a facility use agreement with Los Angeles Unified School District for the use of property located at 1309 Wilton Avenue in Hollywood, California. The facility is utilized by APEX Academy for classroom instruction. The Organization pays a pro rata share charge for the maintenance of the facility and other services in lieu of paying a set lease amount. The pro rata share charge is negotiated annually; therefore, the amount attributed to future years cannot be determined. The total facility usage fees paid by APEX Academy to the authorizing agency during the fiscal year ended June 30, 2022 was \$423,508, of this amount \$155,247 related to the charter's repayment of over allocation of space.

PAZLO EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease

In August 2018, the Organization entered into a property lease agreement for a term ending July 31, 2020. In March 2021, the lease agreement was extended by one year to July 31, 2022. The site, located at 1046 East 34th Street in Los Angeles, California, is utilized by Matrix for Success Academy. The total rent expense associated with this agreement amounted to \$180,000 for the fiscal year ended June 30, 2022. In April 2022, the lease agreement was extended by one year to July 31, 2023. Future minimum lease payments are \$15,000 per month for a total of \$180,000 for the fiscal year ending June 30, 2022.

Pending or Threatened Litigation

The Organization is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Charter as of June 30, 2022.

NOTE 12 – DONATED GOODS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to PazLo Education Foundation in an effort to advance the Organization's programs and objectives. These services have not been recorded in the Organization's financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Organization makes payments to the authorizing agency, Los Angeles Unified School District, to provide required services for special education in addition to fees for oversight. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. Total fees for oversight amounted to \$49,691 and total expenses for special education amounted to \$85,476 for the fiscal year ending June 30, 2022.

NOTE 14 – SUBSEQUENT EVENTS

PazLo Education Foundation has evaluated subsequent events for the period from June 30, 2022 through December 7, 2022, the date the financial statements were available to be issued. Management did not identify any transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

**PAZLO EDUCATION FOUNDATION
LEA ORGANIZATION STRUCTURE
JUNE 30, 2022**

PazLo Education Foundation, located in Los Angeles, was formed as a nonprofit public benefit corporation on October 20, 2011. The Organization operates two public charter schools: APEX Academy (Charter No. 1459) and Matrix for Success Academy (Charter No. 1961). Both charter schools are authorized by the Los Angeles Unified School District. During 2021-22, the Charters collectively served over 500 students in grades 7 to 12.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
June Getz	Co-Chair	June 30, 2023
Allison Hendrick	Co-Chair	June 30, 2023
Jody Molodow	Secretary	June 30, 2023
Mary Jane Wagle	Treasurer	June 30, 2024
Marla Mattenson	Member	June 30, 2024
Lynnette Jenkins	Member	June 30, 2024

ADMINISTRATION

Cesar Lopez
Executive Director

Margret Woelke
Executive Director

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 220,474
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	22,185
COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants [1]:			
Governor's Emergency Education Relief (GEER) Fund	84.425C	15517	27,601
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425	15536	172,564
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425	15547	654,568
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425	15559	590,012
Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425	15618	63,383
Expanded Learning Opportunities (ELO) Grant GEER II	84.425	15619	14,547
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425	15620	28,353
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425	15621	48,876
Subtotal Education Stabilization Fund Discretionary Grants			1,599,904
<i>Passed through Los Angeles Unified School District:</i>			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	111,350
Total U. S. Department of Education			1,953,913
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
COVID-19 Emergency Acts Funding/Extending Summer Food Service Program and SSO:			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	16,826
National School Lunch Program	10.555	13391	65,751
Subtotal Child Nutrition Cluster			82,577
Pandemic EBT Local Administrative Grant	10.649	15644	1,228
Total U. S. Department of Agriculture			83,805
FEDERAL COMMUNICATIONS COMMISSION:			
<i>Directly Funded:</i>			
Emergency Connectivity Fund Program	32.009	*	109,598
Total Federal Communications Commission			109,598
Total Federal Expenditures			\$ 2,147,316

[1] - Major Program

* - Pass-Through Entity Identifying Number not available or not applicable

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
STATEMENT OF FINANCIAL POSITION BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2022**

California Charter No.	1459		1961	
	APEX Academy	Matrix for Success	Organization Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,222,343	\$ 463,112	\$ 1,685,455	
Accounts receivable	1,588,512	333,839	1,922,351	
Prepaid expenses	45,328	25,580	70,908	
Total current assets	<u>2,856,183</u>	<u>822,531</u>	<u>3,678,714</u>	
Noncurrent assets				
Deposits	-	15,000	15,000	
Capital assets, net	32,409	11,357	43,766	
Total noncurrent assets	<u>32,409</u>	<u>26,357</u>	<u>58,766</u>	
Total Assets	\$ 2,888,592	\$ 848,888	\$ 3,737,480	
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 592,658	\$ 104,384	\$ 697,042	
Deferred revenue	185,940	275,155	461,095	
Loan payable	-	50,004	50,004	
Total liabilities	<u>778,598</u>	<u>429,543</u>	<u>1,208,141</u>	
Net assets				
Without donor restrictions	<u>2,109,994</u>	<u>419,345</u>	<u>2,529,339</u>	
Total net assets	<u>2,109,994</u>	<u>419,345</u>	<u>2,529,339</u>	
Total Liabilities and Net Assets	\$ 2,888,592	\$ 848,888	\$ 3,737,480	

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2022**

	California Charter No.		Organization Total
	1459 APEX Academy	1961 Matrix for Success	
NET ASSETS WITHOUT DONOR RESTRICTIONS			
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 2,648,611	\$ 1,463,598	\$ 4,112,209
Federal revenues	1,859,401	287,915	2,147,316
Other state revenues	700,940	244,748	945,688
Total federal and state support and revenues	<u>5,208,952</u>	<u>1,996,261</u>	<u>7,205,213</u>
Local support and revenues			
Payments in lieu of property taxes	787,286	422,036	1,209,322
Other local revenues	31,161	17,151	48,312
Total local support and revenues	<u>818,447</u>	<u>439,187</u>	<u>1,257,634</u>
Total Support and Revenues	<u>6,027,399</u>	<u>2,435,448</u>	<u>8,462,847</u>
EXPENSES			
Program services	4,532,745	1,492,862	6,025,607
Management and general	1,242,314	687,727	1,930,041
Total Expenses	<u>5,775,059</u>	<u>2,180,589</u>	<u>7,955,648</u>
CHANGE IN NET ASSETS	252,340	254,859	507,199
Net Assets - Beginning	<u>1,857,654</u>	<u>164,486</u>	<u>2,022,140</u>
Net Assets - Ending	<u>\$ 2,109,994</u>	<u>\$ 419,345</u>	<u>\$ 2,529,339</u>

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Second Period Report</u>	<u>Annual Report</u>
APEX Academy (Charter No. 1459)		
	<u>Classroom-Based</u>	
Grade Span		
Seventh through eighth	71.60	71.67
Ninth through twelfth	169.62	167.25
Total Average Daily Attendance - Classroom-Based	<u>241.22</u>	<u>238.92</u>
Matrix for Success Academy (Charter No. 1961)		
	<u>Nonclassroom-Based</u>	
Grade Span		
Ninth through twelfth	130.02	145.02
Total Average Daily Attendance - Nonclassroom-Based	<u>130.02</u>	<u>145.02</u>

Matrix for Success Academy had no Classroom-Based ADA in 2021-22.

APEX Academy had no Nonclassroom-Based ADA in 2021-22.

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2022**

Charter School / Grade Span	Minutes Requirement	2021-22 Instructional Minutes	2021-22 Number of Days	Status
APEX Academy (Charter No. 1459)				
Grades 7 through 8	54,000	64,045	180	Complied
Grades 9 through 12	64,800	64,800	180	Complied
Charter School / Grade Span			2021-22 Number of Days	Status
Matrix for Success Academy (Charter No. 1961)				
Grades 9 through 12			180	Complied

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (UNAUDITED ACTUALS) WITH
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2022**

	California Charter No.	<u>1459</u>	<u>1961</u>
		APEX Academy	Matrix for Success Academy
June 30, 2022, net position in Charter School Enterprise Fund per Annual and Financial Budget Report (Unaudited Actuals)		<u>\$ 1,982,081</u>	<u>\$ 419,345</u>
Adjustments:			
Increase (decrease) in total net assets:			
Record Prop 39 over allocated space penalties liability		(139,272)	-
Record LCFF hold harmless revenue per AB 181		<u>267,185</u>	-
Net adjustments		<u>127,913</u>	<u>-</u>
June 30, 2022, net assets per audited financial statements		<u>\$ 2,109,994</u>	<u>\$ 419,345</u>

See accompanying notes to supplementary information.

**PAZLO EDUCATION FOUNDATION
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2022**

NOTE 1 – PURPOSE OF SCHEDULES

A. LEA Organization Structure

This schedule provides information about the local education agencies (LEAs or charter schools), including the Charters' authorizing agencies and grades served and the Organization's members of the governing body and administration.

B. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Organization has not elected to use the 10 percent de minimis indirect cost rate.

C. Financial Statements by Charter

The financial statements by charter, which include the statements of financial position and activities by charter, provide information supporting the amounts incorporated in PazLo Education Foundation's financial statements and reported within APEX Academy and Matrix for Success Academy.

D. Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the charter school. 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 and in different programs.

E. Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered per grade level by the Organization's charter schools, and whether the charter schools complied with the provisions of *Education Code Section 47612.5*.

F. Reconciliation of Annual Financial and Budget Report (Unaudited Actuals) with Audited Financial Statements

This schedule provides the information necessary to reconcile net position reported on the Annual Financial and Budget Report (Unaudited Actuals) within the Charter Schools Enterprise Fund for each charter school to net assets on the audited financial statements by charter school.

OTHER INDEPENDENT AUDITORS' REPORTS

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

Independent Auditors' Report

To the Board of Directors of
PazLo Education Foundation
Los Angeles, California

We have audited, 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, the financial statements of PazLo Education Foundation (the "Organization") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated December 7, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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*.

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.

San Diego, California
December 7, 2022

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

To the Board of Directors of
PazLo Education Foundation
Los Angeles, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited PazLo Education Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of PazLo Education Foundation's major federal programs for the year ended June 30, 2022. PazLo Education Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, PazLo Education Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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 audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PazLo Education Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of PazLo Education Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to PazLo Education Foundation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on PazLo Education Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the report on compliance about PazLo Education Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PazLo Education Foundation's compliance with the compliance requirements referred to above and performing such procedures as we consider necessary in the circumstances.
- Obtain an understanding of PazLo Education Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of PazLo Education Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist in internal control over compliance that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Internal Control Over Compliance (continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Diego, California
December 7, 2022

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Directors of
PazLo Education Foundation
Los Angeles, California

Report on State Compliance

Opinion on State Compliance

We have audited PazLo Education Foundation's compliance with the types of compliance requirements described in the *2021-22 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of PazLo Education Foundation's state programs for the fiscal year ended June 30, 2022, as identified below. Reference to PazLo Education Foundation within this letter is inclusive of APEX Academy (Charter No. 1459) and Matrix for Success Academy (Charter No. 1961).

In our opinion, PazLo Education Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the applicable state programs for the year ended June 30, 2022.

Basis for Opinion on State Compliance

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 *2021-22 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810 as regulations (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

We are required to be independent of PazLo Education Foundation and to meet certain ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on state compliance. Our audit does not provide a legal determination of PazLo Education Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of internal control over compliance with the requirements of the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to PazLo Education Foundation's state programs.

Auditor’s Responsibilities for the Audit for State Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the state compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on PazLo Education Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the K-12 Audit Guide will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the report on compliance about PazLo Education Foundation's compliance with the requirements of the applicable state programs as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the K-12 Audit Guide, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PazLo Education Foundation's compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of PazLo Education Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the K-12 Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of PazLo Education Foundation's internal control over compliance. Accordingly, no such opinion is expressed; and
- Select and test transactions and records to determine PazLo Education Foundation’s compliance with the state laws and regulations to the following items:

Description	APEX Academy	Matrix for Success Academy
Procedures Performed		
School Districts, County Offices of Education and Charter Schools		
California Clean Energy Jobs Act	No*	Not applicable
After/Before School Education and Safety Program	Not applicable	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes	Yes
Local Control and Accountability Plan	Yes	Yes
Independent Study-Course Based	Not applicable	Not applicable
Immunizations	Yes	Yes
Educator Effectiveness	Yes	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes	Yes
Career Technical Education Incentive Grant	Not applicable	Not applicable
In Person Instruction Grant	No*	Not applicable
Charter Schools		
Attendance	Yes	Not applicable
Mode of Instruction	Yes	Not applicable
Nonclassroom-Based Instruction/Independent Study	Not applicable	Yes
Determination of Funding for Nonclassroom-Based Instruction	Not applicable	Yes
Annual Instructional Minutes – Classroom Based	Yes	Not applicable
Charter School Facility Grant Program	Not applicable	Not applicable

* We did not perform testing of California Clean Energy Jobs Act for APEX Academy because funding has not been received nor expended for this program. We did not perform testing of In Person Instruction Grant as APEX Academy did not accept the funding.

“Not applicable” is used in the table above to indicate that the Charters either did not receive program funding or did not otherwise operate the program during the fiscal year.

Auditor's Responsibilities for the Audit for State Compliance (continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies or material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of State Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.

San Diego, California
December 7, 2022

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PAZLO EDUCATION FOUNDATION
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2022**

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>None</u>

Federal Awards

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.425, 84.425U	Education Stabilization Fund Discretionary Grants

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Any audit findings disclosed that are required to be reported in accordance with 2021-22 Guide for Annual Audits of California K-12 Local Education Agencies ?	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

All audit year findings, if any, are assigned an appropriate finding code as follows:

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
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

**PAZLO EDUCATION FOUNDATION
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

There were no audit findings related to the financial statements during the year ended June 30, 2022.

**PAZLO EDUCATION FOUNDATION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

There were no audit findings and questioned costs related to federal awards during the year ended June 30, 2022.

**PAZLO EDUCATION FOUNDATION
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

There were no audit findings and questioned costs related to state awards during the year ended June 30, 2022.

**PAZLO EDUCATION FOUNDATION
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

This schedule presents the status of actions taken by the Organization on each of the findings and recommendations reported in the prior year audit; however, there were no audit findings reported in the year ended June 30, 2021.