

EAST HOLLYWOOD HIGH SCHOOL, INC.

**FINANCIAL STATEMENTS
AND OTHER REPORTS**

Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Hollywood High School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East Hollywood High School, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

EAST HOLLYWOOD HIGH SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2017 with Summarized Comparative Totals for 2016

	2017	2016
Assets:		
Cash	\$ 398,111	\$ 399,104
Receivables:		
Local	4,437	4,184
Federal	103,206	48,137
Receivable from affiliate	12,855	11,827
Prepaid expenses	2,335	705
Capital assets:		
Land	1,104,000	1,104,000
Buildings, improvements, equipment, and other depreciable assets, net of accumulated depreciation	2,758,964	2,899,094
Total assets	<u>4,383,908</u>	<u>4,467,051</u>
Liabilities:		
Accounts payable	8,667	14,434
Payroll and related benefits payable	192,270	187,849
Accrued interest	19,642	20,162
Long-term liabilities:		
Portion due or payable within one year:		
Note payable	107,721	102,530
Obligations under capital lease	10,064	9,387
Portion due or payable after one year:		
Note payable, net	4,540,966	4,637,265
Obligations under capital lease	3,111	13,174
Total liabilities	<u>4,882,441</u>	<u>4,984,801</u>
Net Deficiency in Assets	<u>\$ (498,533)</u>	<u>\$ (517,750)</u>

The accompanying notes are an integral part of this financial statement.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Hollywood High School, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited East Hollywood High School, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of East Hollywood High School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 East Hollywood High School, Inc.'s internal control over financial reporting and compliance.

Squire + Company, PC

Orem, Utah
November 28, 2017

EAST HOLLYWOOD HIGH SCHOOL, INC.
STATEMENT OF ACTIVITIES

Year Ended June 30, 2017 with Summarized Comparative Totals for 2016

	2017	2016
Unrestricted Net Assets:		
Revenues and support:		
Local:		
Tuitions and fees	\$ 70,476	\$ 65,423
Contributions	105,155	-
Other	-	8,984
State	2,437,605	2,327,884
Federal	107,510	98,202
Total revenues and support	<u>2,720,746</u>	<u>2,500,493</u>
Expenses:		
Program services:		
School	2,449,623	2,212,869
Supporting services:		
General	250,506	282,331
Fundraising	1,400	1,487
Total supporting services	<u>251,906</u>	<u>283,818</u>
Total expenses	<u>2,701,529</u>	<u>2,496,687</u>
Loss on redemption of bonds payable	-	290,227
Change in Net Assets	<u>19,217</u>	<u>(286,421)</u>
Net Deficiency in Assets at Beginning of Year	<u>(517,750)</u>	<u>(231,329)</u>
Net Deficiency in Assets at End of Year	<u><u>\$ (498,533)</u></u>	<u><u>\$ (517,750)</u></u>

The accompanying notes are an integral part of this financial statement.

EAST HOLLYWOOD HIGH SCHOOL, INC.**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2017 with Summarized Comparative Totals for 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 19,217	\$ (286,421)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of capital assets	140,130	147,494
Amortization of issuance costs	11,421	8,356
Amortization of bond discount	-	2,404
Loss on redemption of bonds payable	-	290,227
Changes in operating assets and liabilities:		
Receivables	(55,322)	(49,140)
Receivable from affiliate	(1,028)	(5,657)
Prepaid expenses	(1,630)	6,728
Accounts payable	(5,767)	(1,350)
Payroll and related benefits payable	4,421	(16,603)
Accrued interest	(520)	7,270
Total adjustments	<u>91,705</u>	<u>389,729</u>
Net cash provided by operating activities	110,922	103,308
Cash Flows from Investing Activities:		
Purchases of capital assets	-	(16,914)
Net sales of investments	-	690,624
Net cash provided by investing activities	-	673,710
Cash Flows from Financing Activities:		
Repayment of bonds payable	-	(5,485,000)
Repayment of note payable	(102,529)	(24,851)
Repayment of obligations under capital lease	(9,386)	(8,963)
Proceeds from issuance of note payable	-	4,876,000
Payments for issuance costs	-	(114,209)
Net cash used by financing activities	<u>(111,915)</u>	<u>(757,023)</u>
Net Change in Cash	(993)	19,995
Cash at Beginning of Year	<u>399,104</u>	<u>379,109</u>
Cash at End of Year	<u>\$ 398,111</u>	<u>\$ 399,104</u>
Supplemental Data:		
Interest paid	\$ 239,485	\$ 300,632
Purchase of equipment financed by capital lease	-	23,260

The accompanying notes are an integral part of this financial statement.

EAST HOLLYWOOD HIGH SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017 with Summarized Comparative Totals for 2016

	Program Services	Supporting Services		Totals	
	School	General	Fundraising	2017	2016
Salaries	\$ 1,124,266	\$ 111,169	\$ 1,031	\$ 1,236,466	\$ 1,048,940
Employee benefits	419,814	39,929	94	459,837	433,433
Professional and technical services	273,693	49,068	-	322,761	145,933
Purchased property services	36,721	3,785	18	40,524	28,520
Other purchased services	40,093	1,386	8	41,487	49,892
Supplies	195,664	7,883	44	203,591	258,603
Property	5,271	1,074	2	6,347	65,210
Interest expense	227,038	23,218	130	250,386	318,662
Depreciation	127,063	12,994	73	140,130	147,494
Total expenses	<u>\$ 2,449,623</u>	<u>\$ 250,506</u>	<u>\$ 1,400</u>	<u>\$ 2,701,529</u>	<u>\$ 2,496,687</u>

The accompanying notes are an integral part of this financial statement.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Summary of Significant Accounting Policies

Organization – East Hollywood High School, Inc. (the School) was incorporated in the state of Utah on March 9, 2004, as a nonprofit organization involved in public education. The School operates a public charter school in West Valley City, Utah and serves students from grades nine through twelve. The School provides *school program services* (instruction and related services). Supporting services include *general* (Board-related costs and central services) and *fundraising* (sponsoring special events and soliciting contributions).

Basis of Accounting – These financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, capital assets, payables, debt, and other liabilities in accordance with generally accepted accounting principles promulgated in the United States of America for nonprofit organizations. Expenses are recorded when incurred.

Financial Statement Presentation – The School reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are resources to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its charter and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The School's unspent contributions are classified in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets.

Permanently restricted net assets are resources whose use by the School is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restrictions nor by the passage of time.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses are reported as decreases in unrestricted net assets.

Summarized Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

Tax Status – The School is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the School are tax deductible to donors under Section 170 of the IRC. The School is not classified as a private foundation.

Accounts Receivable – Accounts receivable are primarily unsecured amounts due from federal and state sources on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full; therefore, no allowance for uncollectible receivables has been provided.

Prepaid Expenses – The School has made payments for payroll advances and insurance that will be received, consumed, or used in a future period. These items are recorded at cost.

Capital Assets – Capital assets are recorded at cost, if purchased, and at estimated fair value at the date of donation, if donated. Capital assets valued at \$2,000 or more are capitalized and depreciated, using the straight-line depreciation method, over the estimated useful lives of the assets as follows:

<u>Asset Class</u>	<u>Depreciable Lives (Years)</u>
Buildings and improvements	10 to 40
Equipment	3
Other depreciable assets	5

Repairs and maintenance that do not significantly increase the useful life of the asset are charged to expense as incurred.

Capital assets are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Note Issuance Costs – The School has deferred certain costs associated with the issuance of its note payable. These costs are being amortized on a straight-line basis over the life of the note payable. Note issuance costs are netted against the note payable (See Note 5).

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific programs, administration, fundraising, and Board assignments.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

Revenue Recognition – Operating funds for the School are derived principally from federal and state sources. The School receives state funding based on the number of students enrolled in the School. Unrestricted support given by the state is recognized as revenue when received. The School also receives federal and state grants (restricted support) on a reimbursement basis. Accordingly, grant revenue is recognized when qualifying costs are incurred and all other grant performance requirements have been met. Amounts of restricted grants received in excess of qualifying expenditures are recorded as liabilities (unearned revenue).

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted funds first, then unrestricted resources as they are needed.

Federal and state grants are subject to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the School's management believes that costs ultimately disallowed, if any, would not significantly affect the financial position of the School.

Expense Recognition and Allocation – The cost of providing the School's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions (such as facilities costs, depreciation, and interest expense) have been allocated among the various functions benefited based on direct costs.

General expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the School.

Fundraising costs are charged to expense as incurred, even though they may result in contributions received in future years.

Additionally, advertising costs are charged to expense as incurred and totaled \$25,730 for the year ended June 30, 2017.

Use of Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and support and expenses during the reporting period. On an ongoing basis, the School's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The School's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Budgetary Information – The School submits a Board-approved annual budget to the Office of the Utah State Auditor in accordance with state requirements. The Board may amend the annual budget prior to year end. The budget is prepared on a modified accrual basis of accounting (similar to the basis of accounting used by governmental funds of a local government). Revenues are budgeted by source and program. Expenditures are budgeted by function, object, and program.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

Change in Accounting Principle – Effective July 1, 2016, the School elected to change its method of presentation related to bond issuance costs in accordance with generally accepted accounting principles. Prior to 2017, the School’s policy was to present these costs as assets on the balance sheet, net of accumulated amortization. Beginning in 2017, the School has presented these costs as an offset to the related bonds payable.

Subsequent Events – Subsequent events have been evaluated through November 28, 2017, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 2. Concentrations of Risk

Cash Deposits – Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation limits. The School deposits its cash with high quality financial institutions, and management believes the School is not exposed to significant credit risk on those amounts.

Revenue and Support – The majority of the School’s revenue and support comes from the U.S. Department of Education (passed through the Utah State Board of Education) and the state of Utah. Federal and state revenues were 94 percent of total revenue and support for the year ended June 30, 2017.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,104,000	\$ -	\$ -	\$ 1,104,000
Capital assets being depreciated:				
Buildings and improvements	3,774,925	-	-	3,774,925
Equipment	296,601	-	-	296,601
Other depreciable assets	49,454	-	-	49,454
Total capital assets being depreciated	4,120,980	-	-	4,120,980
Accumulated depreciation for:				
Buildings and improvements	(945,461)	(102,075)	-	(1,047,536)
Equipment	(230,569)	(36,268)	-	(266,837)
Other depreciable assets	(45,856)	(1,787)	-	(47,643)
Total accumulated depreciation	(1,221,886)	(140,130)	-	(1,362,016)
Total capital assets being depreciated, net	2,899,094	(140,130)	-	2,758,964
Total capital assets, net	\$ 4,003,094	\$ (140,130)	\$ -	\$ 3,862,964

Depreciation expense of \$140,130 for the year ended June 30, 2017 was allocated to program and supporting services, primarily to school program services.

Note 4. State Retirement Plans

Defined Benefit Pension Plans – The School participates in the cost-sharing, multiple employer public employees retirement systems administered by the Utah Retirement Systems (the URS). School employees qualify for membership in the URS if employment normally requires an average of 20 or more hours per week and the employee receives benefits normally provided by the School as approved by the Utah State Retirement Board.

The URS provides retirement, disability, and death benefits to participants. Retirement benefits are determined from 1.25% to 2.00% of the employee's highest 3 or 5 years of compensation times the employee's years of service; benefits are subject to cost-of-living adjustments up to 2.50% or 4.00%, limited to the actual Consumer Price Index increase for the year. Employees are eligible to retire based on years of service and age.

Title 49 of the *Utah Code* grants the authority to establish and amend the benefit terms to the Utah State Retirement Board, whose members are appointed by the Governor. The URS (a component unit of the State of Utah) issues a publicly available financial report that can be obtained at www.urs.org.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

The contribution requirements of the System are authorized by statute and specified by the Utah State Retirement Board. The School's required contribution rates (actuarially determined) to the System for the year ended June 30, 2017, range from 10.02% to 22.19%.

For the year ended June 30, 2017, the School contributed \$214,103 to the System. Contributions were paid during the year or shortly thereafter.

Defined Contribution Plans – The School participates in deferred compensation plans - under Internal Revenue Code Section 401(k) and 457 - to supplement retirement benefits accrued by participants in the URS. During the year ended June 30, 2017, School contributions for participating employees ranged from 1.50% to 10.00% of participant salaries.

Employees can make additional contributions up to applicable plan and Internal Revenue Code limits. For the year ended June 30, 2017, the School contributed \$23,896 and employee contributions totaled \$6,181. Employer and employee contributions were paid during the year or shortly thereafter. School 401(k) contributions and associated earnings are vested during the first four years of employment. Individual accounts are provided for each participant and are available at termination, retirement, death, or unforeseeable emergency.

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 4,851,149	\$ -	\$ (102,529)	\$ 4,748,620	\$ 107,721
Cost of issuance	(111,354)	-	11,421	(99,933)	-
Net note payable	4,739,795	-	(91,108)	4,648,687	107,721
Obligations under capital lease	22,561	-	(9,386)	13,175	10,064
Total long-term liabilities	<u>\$ 4,762,356</u>	<u>\$ -</u>	<u>\$ (100,494)</u>	<u>\$ 4,661,862</u>	<u>\$ 117,785</u>

Note Payable – During 2016, the School retired its bonds payable by issuing a \$4,876,000 note payable with a financial institution. Interest accrues on the note payable at 4.95 percent. Monthly payments of \$28,363 began in April 2016 and will continue through March 2026.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

The future debt service of the note payable is summarized as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 107,721	\$ 232,635	\$ 340,356
2019	113,176	227,180	340,356
2020	118,907	221,449	340,356
2021	124,929	215,427	340,356
2022	131,255	209,101	340,356
2023 - 2026	4,152,632	722,121	4,874,753
	<u>\$ 4,748,620</u>	<u>\$ 1,827,913</u>	<u>\$ 6,576,533</u>

Obligations Under Capital Lease – The School has acquired equipment under capital lease agreements. The following is a summary of leased capital assets at June 30, 2017:

Equipment	\$ 32,507
Accumulated depreciation	<u>(20,284)</u>
	<u>\$ 12,223</u>

Future minimum payments under these capital lease obligations together with their present values as of June 30, 2017 are summarized as follows:

Year Ending June 30,	
2018	\$ 11,044
2019	2,580
2020	<u>860</u>
Total minimum lease payments	14,484
Amount representing interest	<u>(1,309)</u>
Present value of minimum lease payments	<u>\$ 13,175</u>

Note 6. Related Party Transactions

The Director of the School is also the Director of another charter school. The two schools make purchases on each other's behalf and are subsequently reimbursed by each other. The School was owed \$12,855 at June 30, 2017.

A member of the School's Board of Directors received compensation from the School for the member's work related to fundraising and marketing. This board member was paid \$10,000 in compensation during the year ended June 30, 2017.

EAST HOLLYWOOD HIGH SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

Note 7. Risk Management

The School is exposed to various risks of loss related to torts, errors and omissions, property, employee health, workers' compensation, and unemployment for which the School carries commercial insurance. For these programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for each of the past three years.

Note 8. Student Fall Enrollment

Student fall enrollment is measured on October 1. The School's fall enrollments for the five most recent counts are summarized as follows:

<u>Year Ended June 30,</u>	<u>October 1 Enrollment</u>
2018	367
2017	351
2016	337
2015	333
2014	311

Note 9. Net Deficiency in Assets

The School reports a net deficiency in assets of \$498,533 at June 30, 2017. Debt principal payments have been less than depreciation on capital assets during the year. The ability of the School to improve its financial condition is dependent on the success of management's ability to effectively budget. The financial statements do not include any adjustments that might be necessary if management's plans are not successful.



Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Directors
East Hollywood High School, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Hollywood High School, Inc. (the School), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Squire + Company, PC

Orem, Utah
November 28, 2017



Independent Auditor's Report on Compliance
and Report on Internal Control over Compliance
Required by the *State Compliance Audit Guide*

Board of Directors
East Hollywood High School, Inc.

Report on Compliance

We have audited the compliance of East Hollywood High School, Inc. (the School) with the following applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, for the year ended June 30, 2017.

Minimum School Program
Budgetary Compliance
Fund Balance
Utah Retirement Systems
Open and Public Meetings Act
Public Treasurer's Bond
Cash Management

Management's Responsibility

Management is responsible for compliance with the state compliance requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the state compliance requirements referred to above.

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 *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state compliance requirement referred to above. However, our audit does not provide a legal determination of the School's compliance with those requirements.

Opinion on Compliance

In our opinion, East Hollywood High School, Inc. complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described below. Our opinion on compliance is not modified with respect to these matters.

Budgetary Compliance – We noted that the School’s total expenditures exceeded the amounts appropriated in the final adopted budget. We recommend budgets be updated and approved during the course of the year for actual expenditures.

Management’s Response – We agree with your recommendations. We have made the necessary changes in the School’s process for subsequent years.

The School’s response to the noncompliance finding identified in our audit is described above. The School’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School’s internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance with those state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School’s 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 state compliance requirement 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 state compliance requirement 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 state compliance requirement 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Squire & Company, PC

Orem, Utah
November 28, 2017