NAVIGATOR SCHOOLS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

OPERATING:

Gilroy Prep
Hollister Prep

NAVIGATOR SCHOOLS
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YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Navigator Schools
Gilroy, California

Report on the Financial Statements

We have audited the accompanying financial statements of Navigator Schools (Navigator), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to on page 1 present fairly, in all material respects, the financial position of Navigator as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2018 on our consideration of Navigator's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness on Navigator's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Navigator's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
November 9, 2018

NAVIGATOR SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS	CMO	Gilroy Prep	Hollister Prep	Total
CURRENT ASSETS				
Cash and Cash Equivalents	$ 343,926	$ 1,298,583	$ 1,339,214	$ 2,981,723
Accounts Receivable	1,452	307,981	467,468	776,901
Prepaid Expenses and Other Assets	29,720	71,856	122,639	224,215
Total Current Assets	375,098	1,678,420	1,929,321	3,982,839
LONG-TERM ASSETS				
Property, Plant, and Equipment, Net	-	221,237	103,208	324,445
Total Long-Term Assets	-	221,237	103,208	324,445
Total Assets	$ 375,098	$ 1,899,657	$ 2,032,529	$ 4,307,284
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	$ 81,479	$ 371,544	$ 392,647	$ 845,670
Total Current Liabilities	81,479	371,544	392,647	845,670
NET ASSETS				
Unrestricted	293,619	1,528,113	1,536,013	3,357,745
Temporarily Restricted	-	-	103,869	103,869
Total Net Assets	293,619	1,528,113	1,639,882	3,461,614
Total Liabilities and Net Assets	$ 375,098	$ 1,899,657	$ 2,032,529	$ 4,307,284

See accompanying Notes to Financial Statements.

NAVIGATOR SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	CMO Unrestricted	Gilroy Prep Unrestricted	Gilroy Prep Temporarily Restricted	Hollister Prep Unrestricted	Hollister Prep Temporarily Restricted	Eliminations	Total
REVENUES							
State Revenue:							
State Apportionment	$ -	1,676,318	$ -	2,830,782	$ -	$ -	$ 4,507,100
Other State Revenue		568,265		351,452	52,076		971,793
Federal Revenue:							
Grants and Entitlements	-	295,457	-	167,731	-	-	463,188
Local Revenue:							
In-Lieu Property Tax Revenue	-	2,706,391	-	864,133	-	-	3,570,524
Contributions	400,096	36,967	-	33,963	-	-	471,026
Investment Income	391	-	-	-	-	-	391
Other Revenue	1,473,412	88,084	-	45,746	-	(1,471,973)	135,269
Net Assets Released from Restriction	-	18,350	(18,350)	-	-	-	-
Total Revenues, Net	1,873,899	5,389,832	(18,350)	4,293,807	52,076	(1,471,973)	10,119,291
EXPENSES							
Program Services	222,946	4,260,474	-	3,083,612	-	-	7,567,032
Management and General	1,509,449	1,061,547	-	928,891	-	(1,471,973)	2,027,914
Total Expenses	1,732,395	5,322,021	-	4,012,503	-	(1,471,973)	9,594,946
CHANGE IN NET ASSETS	141,504	67,811	(18,350)	281,304	52,076	-	524,345
Net Assets - Beginning of Year	152,115	1,460,302	18,350	1,254,709	51,793	-	2,937,269
NET ASSETS - END OF YEAR	$ 293,619	$ 1,528,113	$ -	$ 1,536,013	$ 103,869	$ -	$ 3,461,614

See accompanying Notes to Financial Statements.

NAVIGATOR SCHOOLS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	CMO	Gilroy Prep	Hollister Prep	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	$ 141,504	$ 49,461	$ 333,380	$ 524,345
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation	-	37,112	16,153	53,265
(Increase) Decrease in Assets:				
Accounts Receivable	(1,452)	87,993	263,056	349,597
Prepaid Expenses and Other Assets	(4,909)	37,749	(47,640)	(14,800)
Increase (Decrease) in Liabilities:				
Accounts Payable and Accrued Liabilities	36,789	(29,959)	180,191	187,021
Net Cash Provided by Operating Activities	171,932	182,356	745,140	1,099,428
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Property, Plant, and Equipment	-	(64,814)	-	(64,814)
Net Cash Used by Investing Activities	-	(64,814)	-	(64,814)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of Debt	-	-	(62,500)	(62,500)
Net Cash Used by Financing Activities	-	-	(62,500)	(62,500)
NET CHANGE IN CASH AND CASH EQUIVALENTS	171,932	117,542	682,640	972,114
Cash and Cash Equivalents - Beginning of Year	171,994	1,181,041	656,574	2,009,609
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 343,926	$ 1,298,583	$ 1,339,214	$ 2,981,723
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid for Interest	$ -	$ -	$ 99	$ 99

See accompanying Notes to Financial Statements.

NAVIGATOR SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Eliminations	Total Expenses
Salaries and Wages	$ 4,562,762	$ 1,142,944	$ -	$ 5,705,706
Pension Expense	443,823	41,344	-	485,167
Other Employee Benefits	563,895	143,612	-	707,507
Payroll Taxes	175,875	31,242	-	207,117
Management Fees	-	242,090	-	242,090
Legal Expenses	-	21,059	-	21,059
Accounting Expenses	-	8,575	-	8,575
Instructional Materials	506,482	-	-	506,482
Other Fees for Services	211,260	1,603,826	(1,471,973)	343,113
Advertising and Promotion Expenses	-	4,947	-	4,947
Office Expenses	117,133	21,951	-	139,084
Information Technology Expenses	180,952	60,567	-	241,519
Occupancy Expenses	155,636	36,059	-	191,695
Travel Expenses	82,401	63,757	-	146,158
Interest Expense	-	99	-	99
Depreciation Expense	53,265	-	-	53,265
Insurance Expense	-	36,105	-	36,105
Other Expenses	513,548	41,710	-	555,258
Subtotal	7,567,032	3,499,887	(1,471,973)	9,594,946
Eliminations	-	(1,471,973)	1,471,973	-
Total	$ 7,567,032	$ 2,027,914	$ -	$ 9,594,946

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

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

Cash and Cash Equivalents

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

Use of Estimates

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

Basis of Accounting

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

Functional Allocation of Expenses

Costs of providing Navigator's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes

Navigator is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of Navigator are defined as:

Unrestricted

All resources over which the governing board has discretionary control to use in carrying on the general operations of Navigator.

Temporarily Restricted

These net assets are restricted by donors to be used for specific purposes. Navigator currently has temporarily restricted net assets consisting of unspent Clean Energy funding.

Permanently Restricted

These net assets are permanently restricted by donors and cannot be used by Navigator. Navigator does not currently have any permanently restricted net assets.

Receivables

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2018. Management believes that all receivables are fully collectible; therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment

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

Property Taxes

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Amounts received from the California Department of Education are recognized as revenue by Navigator based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes

Navigator is a nonprofit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. Navigator files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Subsequent Events

Navigator has evaluated subsequent events through November 9, 2018, the date these financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

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

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was $53,265 for the year ended June 30, 2018.

The components of property, plant, and equipment as of June 30, 2018 are as follows:

	Gilroy Prep	Hollister Prep
Land Improvements	164,747	17,744
Equipment, Furniture and Fixtures	250,529	125,516
Total	415,276	143,260
Less: Accumulated Depreciation	(194,039)	(40,052)
Total Property, Plant, and Equipment	$ 221,237	$ 103,208

NOTE 4 COMMITMENTS

Navigator (Gilroy Prep) signed a facility use agreement with the Gilroy Unified School District. The agreement carries a term that coincides with Navigator's charter. The agreement does not require Navigator to pay a lease amount for the use of the property, but instead Navigator pays a supervisorial oversight fees at 3% of Navigator's general purpose entitlement and categorical block grants. The supervisorial oversight fees recorded for the year ended June 30, 2018 were $131,480.

Navigator (Hollister Prep) signed a facility agreement with Hollister Unified School District starting July 1, 2013 which requires Navigator to pay 3% of Hollister Prep School's general purpose entitlement and categorical block grants for the property. The supervisorial oversight fees recorded for the year ended June 30, 2018 were $110,610.

NOTE 5 EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

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

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

State Teachers' Retirement System (STRS)

Plan Description

The Navigator contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2017, total STRS plan net assets are $210 billion, the total actuarial present value of accumulated plan benefits is $362 billion, contributions from all employers totaled $4.2 billion, and the plan is 62.6% funded. The Navigator did not contribute more than 5% of the total contributions to the plan.

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

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The Navigator is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for the year ended June 30, 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

NOTE 6 EMPLOYEE RETIREMENT

State Teachers' Retirement System (STRS) (Continued)

Funding Policy (Continued)

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

Year Ended June 30,	Required Contribution	Percent Contributed
2016	$ 265,382	100 %
2017	371,226	100
2018	485,167	100

NOTE 6 CHARTER MANAGEMENT ORGANIZATION

Navigator charges CMO fees to each charter for management services performed during the year. Navigator (Gilroy Prep) paid CMO fees of $788,888 for the year ended June 30, 2018. Navigator (Hollister Prep) paid CMO fees of $683,085 for the year ended June 30, 2018. These fees were eliminated in the financial statements.

NOTE 7 CONTINGENCIES

Navigator has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, management believes that any required reimbursement would not be material.

SUPPLEMENTARY INFORMATION

NAVIGATOR SCHOOLS
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2018

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

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

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

Gilroy Prep charter school number authorized by the State: 1278

Hollister Prep charter school number authorized by the State: 1507

The board of directors and the administrators as of the year ended June 30, 2018 were as follows:

BOARD OF DIRECTORS

Member	Office	Term Expires (2 year term)
Caitrin Wright	Chair	March 1, 2019
Alicia Gallegos-Fambrini	Secretary	September 1, 2019
Joyce Montgomery	Treasurer	April 2, 2020
JP Anderson	Member	June 1, 2020
John Glover	Member	July 1, 2020
Nora Crivello	Member	June 1, 2020
John Flaherty	Member	March 21, 2020
Fiaau Ohmann	Member	March 21, 2020

ADMINISTRATORS

Kevin Sved	Chief Executive Officer

NAVIGATOR SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2018

	Instructional Minutes		Traditional Calendar	
	Requirement	Actual	Days	Status
Gilroy Prep				
Kindergarten	36,000	57,300	180	In compliance
Grade 1	50,400	59,190	180	In compliance
Grade 2	50,400	59,190	180	In compliance
Grade 3	50,400	59,190	180	In compliance
Grade 4	54,000	59,190	180	In compliance
Grade 5	54,000	59,190	180	In compliance
Grade 6	54,000	60,330	180	In compliance
Grade 7	54,000	60,330	180	In compliance
Grade 8	54,000	60,330	180	In compliance
Hollister Prep				
Kindergarten	36,000	57,165	180	In compliance
Grade 1	50,400	60,375	180	In compliance
Grade 2	50,400	60,375	180	In compliance
Grade 3	50,400	60,375	180	In compliance
Grade 4	54,000	60,375	180	In compliance
Grade 5	54,000	60,375	180	In compliance
Grade 6	54,000	62,370	180	In compliance

See accompanying Auditors' Report and the Notes to Supplementary Information

NAVIGATOR SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2018

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Gilroy Prep				
TK/K-3	230.53	230.53	231.07	231.07
Grades 4-6	172.88	172.88	172.87	172.87
Grades 7-8	115.12	115.12	114.57	114.57
ADA Totals	518.53	518.53	518.51	518.51
Hollister Prep				
TK/K-3	231.17	231.17	231.75	231.75
Grades 4-6	174.52	174.52	174.82	174.82
ADA Totals	405.69	405.69	406.57	406.57

See accompanying Auditors' Report and the Notes to Supplementary Information

NAVIGATOR SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

	Gilroy Prep	Hollister Prep
June 30, 2018 Annual Financial Report Fund Balances (Net Assets)	$ 1,528,423	$ 1,639,882
Adjustments and Reclassifications:		
Increase (Decrease) of Fund Balance (Net Assets):		
Cash and Cash Equivalents	(12,884)	17,576
Prepaid Expenses and Other Assets	-	6,761
Accounts Payable and Accrued Liabilities	12,574	(24,337)
Net Adjustments and Reclassifications	(310)	-
June 30, 2018 Audited Financial Statement Fund Balances (Net Assets)	$ 1,528,113	$ 1,639,882

See accompanying Auditors' Report and the Notes to Supplementary Information

PURPOSE OF SCHEDULES

NOTE 1 SCHEDULE OF INSTRUCTIONAL TIME

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

NOTE 2 SCHEDULE OF AVERAGE DAILY ATTENDANCE

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

NOTE 3 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Navigator Schools
Gilroy, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Navigator Schools (Navigator), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
November 9, 2018

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Navigator Schools
Gilroy, California

We have audited Navigator Schools' (Navigator) compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* published by the Education Audit Appeals Panel for the year ended June 30, 2018. Navigator's state compliance requirements are identified in the table below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on Navigator's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the Navigator's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of Navigator's compliance.

Compliance Requirements Tested

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

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

Board of Directors
Navigator Schools

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

Opinion on State Compliance

In our opinion, Navigator complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
November 9, 2018

NAVIGATOR SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

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

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

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards* or the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

NAVIGATOR SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

There were no findings in the prior year.

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To the Board of Navigator Schools

We have audited the financial statements of Navigator Schools as of and for the year ended June 30, 2018, and have issued our report thereon dated November 9, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

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

No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018.

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

Accounting estimates

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

Financial statement disclosures

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

Difficulties encountered in performing the audit

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

Uncorrected misstatements

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

Corrected misstatements

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

Disagreements with management

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

Management representations

We have requested certain representations from management that are included in the management representation letter dated November 9, 2018.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

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

Other information in documents containing audited financial statements

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

With respect to the schedules required by the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel (Local Education Agency Organization Structure, Schedule of Instructional Time, Schedule of Average Daily Attendance, Reconciliation of Annual Financial Report with Audited Financial Statements), accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 9, 2018.

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

Other audit issues and upcoming new standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new revenue recognition standard affects all entities, including public, private, and not-for-profit, that have contracts with customers, except where there is other specific revenue recognition guidance issued by the FASB.

This new revenue recognition standard effectively eliminates the transaction specific and industry-specific revenue recognition guidance under current accounting principles generally accepted in the United States of America (U.S. GAAP) and replaces it with a principles-based approach for determining an entity's revenue recognition policies. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The effective date for this new revenue recognition standard for nonpublic entities is for annual reporting periods beginning after December 15, 2018.

This ASU has the potential to cause major changes in revenue recognition and have significant effects on an entity's financial statements. Based on the effective date and the adoption methods provided for in the standard, we strongly encourage management and governance of the entity to gain an understanding of the effect of Topic 606 by performing an assessment of the entity's various revenue streams, which may require a detailed review of customer contracts. The entity should be prepared to update policies and procedures. The assessment should be performed before making quantitative conclusions regarding the financial statement effect of Topic 606. We are available to assist you in developing your adoption and implementation plan over the course of the next few months.

New Financial Statement Model

After more than three years of debate, comment, and revision, the Financial Accounting Standards Board's (FASB) much-anticipated Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, was released on August 18, 2016.

FASB says the update is designed to improve nonprofit financial statements and provide more useful information to donors, grantors, creditors, and other financial statement users. The effective date is December 15, 2017, for fiscal year entities, or December 31, 2018, for calendar year entities. Early application is permitted.

As a result of these changes, the entity may note the following overarching impacts:

1. Additional time by management to gather the appropriate information, which is not always readily available to ensure the new disclosures are complete and accurate.

2. Additional expense incurred during your audit to assist in the preparation of the additional disclosure information given the increased transparency and detailed information included in the financial statements and disclosures.

3. Increased number of differences between not-for-profit accounting as compared to for-profit accounting that would require further education, reconciliation, and explanations for stakeholders with for-profit backgrounds.

As a nonprofit organization, some of the more significant impacts include:

1. With the new ASU, the three existing classes of net assets will be condensed into two:

    - Unrestricted net assets will become net assets without donor restrictions.
    - Temporarily and permanently restricted net assets will collectively become net assets with donor restrictions.

    Financial statement notes will need to include the timing and nature of the restrictions, as well as the composition of net assets with donor restrictions at the end of the period. In addition, underwater endowments will now be classified in net assets with donor restrictions, instead of the current classification in unrestricted net assets. Expanded notes will also be required to disclose amounts underwater and include plans for reducing or not spending from these funds.

    A nonprofit's governing board may make designations or appropriations that result in self-imposed limits on the use of resources without donor restrictions; enhanced disclosure information will be required on the amounts and purposes of these designations. The placed-in-service approach will also be required for reporting the expiration of donor restrictions on resources used to acquire or construct long-lived assets, and the reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions.

2. Reporting expenses by both function and natural classification will be required for all nonprofits on a separate statement, on the face of the statement of activities, or in the footnotes. While a separate statement of functional expenses is not required, it may be the most effective presentation option for nonprofits with more than one program. These reporting updates may require changes to internal procedures to ensure that this level of detail is tracked and that it complies with the requirement. Additional disclosures will also be required regarding methods used to allocate costs for program and support functions.

3. Nonprofits will continue to report the change in total net assets for the period, and will also need to report the amount of change in each of the two classes of net assets in the statement of activities. While presenting an intermediate measure of operations is still allowed, enhanced disclosures will be required. Investment income will now be reported after deducting external and direct internal investment expenses. The disclosure of investment expenses is permitted,

but it will no longer be required, except for the disclosure of the amount of internal salaries and benefits that have been netted (if any) against investment return.

4. Under the new guidance, nonprofits may present operating cash flows using either the direct or indirect method, but organizations will no longer be required to present or disclose the indirect method reconciliation if the direct method is used. This is intended to provide greater flexibility and the freedom to choose the method that best serves each entity's informational needs.

5. New disclosures will be necessary for the management of liquidity and the financial assets available to meet near-term demands for cash. The disclosure will include both quantitative and qualitative information, including factors that may impact the financial availability, such as the nature, imposed external limits, or imposed internal limits. The time horizon for the quantitative disclosures is one year, and footnote disclosure is only required in circumstances where information is not apparent on the statement of financial position.

Adoption of ASU 2016-14 will result in significant changes to financial reporting and disclosures for nonprofits. With early adoption permitted for future year-ends, and the final implementation deadline quickly approaching, we encourage organizations to begin preparing now for this transition. Our guidance and tools can help your organization with the implementation process.

* * *

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, CA
November 9, 2018