

LITERACY FIRST CHARTER SCHOOL

SAN DIEGO COUNTY

EL CAJON, CALIFORNIA

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2017

LITERACY FIRST CHARTER SCHOOL
Financial Statements and Supplemental Information
Year Ended June 30, 2017

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Independent Auditor's Report

To the Board of Trustees of
Literacy First Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Literacy First Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy First Charter School 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying additional supplementary information, as required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810 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 5, 2017, on our consideration of Literacy First Charter School'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 Literacy First Charter School's internal control over financial reporting and compliance.

El Cajon, California
December 5, 2017

DRAFT

Financial Statements

LITERACY FIRST CHARTER SCHOOL

Statement of Financial Position

June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,363,997
Investments	410,917
Accounts receivable	1,508,873
Prepaid expenditures	<u>483,083</u>
Total Current Assets	<u>6,766,870</u>

Noncurrent Assets

Capital assets, net	<u>9,607,524</u>
Total Noncurrent Assets	<u>9,607,524</u>

TOTAL ASSETS \$ 16,374,394

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 171,804
Unearned revenue	29,396
Loan payable, current portion	<u>129,344</u>
Total Current Liabilities	<u>330,544</u>

Long Term Liabilities

Loan payable, less current portion	<u>2,573,934</u>
Total Long Term Liabilities	<u>2,573,934</u>

Total Liabilities 2,904,478

Net Assets

Unrestricted	13,167,720
Temporarily restricted	<u>302,196</u>
Total Net Assets	<u>13,469,916</u>

TOTAL LIABILITIES AND NET ASSETS \$ 16,374,394

The accompanying notes are an integral part of this statement.

LITERACY FIRST CHARTER SCHOOL

Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Revenue			
LCFF state aid, current year	\$ 7,815,375	\$ -	\$ 7,815,375
Education protection account funds	2,079,133	-	2,079,133
Payments in lieu of property taxes	3,058,651	-	3,058,651
Federal revenue	-	47,237	47,237
Other state revenue	370,824	1,976,282	2,347,106
Interest	53,896	-	53,896
Other local revenue	1,132,448	-	1,132,448
Total Revenues	<u>14,510,327</u>	<u>2,023,519</u>	<u>16,533,846</u>
Net assets released from restrictions:			
Grant restrictions satisfied	<u>1,829,941</u>	<u>(1,829,941)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>16,340,268</u>	<u>193,578</u>	<u>16,533,846</u>
EXPENSES			
Certificated salaries	6,651,340	-	6,651,340
Classified salaries	1,499,160	-	1,499,160
Taxes and employee benefits	2,234,325	-	2,234,325
Books and supplies	997,894	-	997,894
Rentals, leases and repairs	1,652,370	-	1,652,370
Other operating expenditures	1,735,632	-	1,735,632
Depreciation expense	226,505	-	226,505
TOTAL EXPENSES	<u>14,997,226</u>	<u>-</u>	<u>14,997,226</u>
CHANGE IN NET ASSETS	1,343,042	193,578	1,536,620
NET ASSETS, BEGINNING OF YEAR	<u>11,824,678</u>	<u>108,618</u>	<u>11,933,296</u>
NET ASSETS, END OF YEAR	<u>\$13,167,720</u>	<u>\$ 302,196</u>	<u>\$13,469,916</u>

The accompanying notes are an integral part of this statement.

LITERACY FIRST CHARTER SCHOOL

Statement of Cash Flows

Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 1,536,620
Depreciation	226,505
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) Decrease resulting from changes in assets:	
Accounts receivable	(775,056)
Prepaid expenses	1,950
Increase (Decrease) resulting from changes in liabilities:	
Accounts payable	(138,541)
Unearned revenue	18,769
Loan payable, current portion	(4,406)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>865,841</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets	(4,415,907)
Increase in investments	(582)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(4,416,489)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on loan payable	(434,816)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(434,816)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (3,985,464)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 8,349,461

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 4,363,997

The accompanying notes are an integral part of this statement.

LITERACY FIRST CHARTER SCHOOL

Notes to the Financial Statements

Year Ended June 30, 2017

A. Organization and Summary of Significant Accounting Policies

Organization

Literacy First Charter School (the "School") a nonprofit organization, was organized on November 30, 2000 in the State of California. The School's mission is to provide quality education to students in kindergarten through twelfth grade. Literacy First Charter School was formed as a charter school pursuant to California Education Code Section 47600 under a charter agreement with the San Diego County Office of Education. The Charter expires June 30, 2021. On December 14, 2011 the San Diego County Board of Education approved a material revision to the Literacy First Charter School charter to add grades 9 through 12 and operate the Liberty Charter High School under a single charter document beginning the 2012-13 school year. The School and the San Diego County Office of Education entered into a Memorandum of Understanding (MOU), dated March 5, 2012 to address operational issues relating to the revised charter, including issues related to the operation of grade 9 through 12 and the location of facilities. Under the MOU, the School is required to locate Liberty Charter High School within the boundaries of the Grossmont Union High School District. On April 24, 2012 the School entered into a lease agreement with the Lemon Grove School District to lease certain property known as Palm Middle School for the Liberty Charter High School. The school site is located within the boundaries of the Grossmont Union High School District.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, Financial Statements of Not-for-Profit Organizations. Under ASC No. 958, the School is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor or grant restrictions.
- Temporarily restricted net assets consist of contributed funds or grants subject to donor or grant imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the School may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The School had no permanently restricted net assets during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the School considers all highly liquid debt equity instruments purchased with an original maturity of three months or less to be cash equivalents.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

Investments

The School's method of accounting for investments, in accordance with generally accepted accounting principles, is the fair value method. Fair value is determined by published quotes. Changes in fair value of investments results in increases or decreases in unrealized fair values of equity investments. Adjustments to fair values are reflected as unrealized gain/loss on investments in the accompanying statement of activities.

Accounts Receivable

Accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary as management believes that all amounts are collectible.

Capital Assets

Property and equipment are recorded at cost, or estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the School's earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred. The School's policy is to evaluate the remaining lives and recoverability in light of the current conditions. It is reasonably possible that the School's estimate to recover the carrying amount of the property and equipment will change. Estimated useful lives range from three to fifty years depending on the asset.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition or when resources are received by the School prior to the School meeting the requirements for legal claim to the resources.

In subsequent periods, when both revenue recognition criteria are met or when the School has legal claim to the resources, the liability for unearned revenue is removed from the statement of financial position and revenue is recognized.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions.

All donor or grant restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The School receives services donated by volunteers in carrying out the School's operations. The services do not meet the criteria as contributions and are, therefore, not recognized in the financial statements.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contribution of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time.

LCFF Revenues and Payments in Lieu of Property Taxes

The School's primary funding source is a combination of local property taxes and state revenues. The California Department of Education computes the local control funding formula (LCFF) on statewide charter school rates multiplied by the School's average daily attendance (ADA) as reported at the Second Principal apportionment period (P2). The result is then reduced by property tax revenues transferred from the District to the School, which is funding in lieu of property taxes and education protection account funds paid by the state under proposition 30. The remaining balance is paid from the state General Fund, in the form of LCFF State Aid. LCFF funding sources, inclusive of state and local sources, made up 78% of the school's revenue. The School is not at risk of losing these funding sources, as long as the school maintains a steady level of ADA, as these funding sources are mandated by the California State Constitution to fund schools.

Advertising

Advertising costs are expensed when incurred.

Income Taxes

The School is a 509(a)(1) publicly supported non-profit organization that is exempt from income taxes under Sections 501(a) and 501(c)(3) of the Internal Revenue Code. The School is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. The School may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2017, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The School follows provisions of uncertain tax positions as addressed in ASC 958. The School recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended June 30, 2017.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

The School files informational and income tax returns in the United States and in the state of California. The federal income tax and informational returns are subject to examination by the Internal Revenue Service for three years after the returns are filed. State and local jurisdictions have statutes of limitation that generally range from three to five years.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through December 5, 2017, the date the financial statements were available to be issued.

B. Cash and Cash Equivalents

Cash in County Treasury

The School is a voluntary participant and therefore maintains a portion of its cash in the San Diego County Treasury as part of the common investment pool (\$4,199,539 as of June 30, 2017). The County Treasury is restricted by Government Code §53635 pursuant to §53601 to invest in time deposits, U.S. Government Securities, state registered warrants, notes or bonds, State Treasurer's investment pool, banker's acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse agreements.

The fair value of the School's investment in this pool is reported in the accompanying financial statements at amounts based upon the School's pro-rata share of the fair value provided by the County Treasury for the entire County Treasury portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasury, which are recorded on an amortized cost basis.

Cash in Bank

The remainder of the School's cash (\$164,458 as of June 30, 2017) is held in financial institutions which are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. As of June 30, 2017, the School did not have any cash that was exposed to uninsured deposit risk.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

C. Investments

Investments, carried at fair value at June 30, 2017 and held on behalf of the School, are presented below, categorized separately to give an indication of the level of risk associated with each investment:

Category 1: Insured or registered, or securities held by the School or its agent in the School's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the School's name.

Category 3: Uninsured and unregistered, with securities held by the county party, or by its trust department or agent but not in the School's name.

	Category			Fair Value
	1	2	3	
Commercial paper compound market sweep	\$ 410,917	\$ -	\$ -	\$ 410,917
	\$ 410,917	\$ -	\$ -	\$ 410,917

D. Accounts Receivable

As of June 30, 2017 accounts receivable consisted of:

	Accounts Receivable
State Government:	
State Lottery	\$ 148,974
Special Education	668,696
Charter School Facility Grant	416,801
Other State Grants	245,259
Local Sources:	
Interest	11,985
In Lieu of Property Taxes	17,158
Total Accounts Receivable	\$ 1,508,873

E. Prepaid Expenditures

As of June 30, 2017 prepaid expenditures consisted of:

Prepaid vendors	\$ 464,958
Prepaid rent	62,819
Prepaid medical	17,797
Prepaid other	(62,491)
Total Prepaid Expenditures	\$ 483,083

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

F. Capital Assets

As of June 30, 2017 capital assets consisted of:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$ 320,000	\$ 4,533,045	\$ -	\$ 4,853,045
Work in progress	147,564	1,259,912	-	1,407,476
Building	6,037,958	-	1,435,816	4,602,142
Equipment	<u>426,225</u>	<u>58,766</u>	<u>-</u>	<u>484,991</u>
 Total capital assets	 6,931,747	 5,851,723	 1,435,816	 11,347,654
 Less accumulated depreciation	 <u>(1,513,625)</u>	 <u>(226,505)</u>	 <u>-</u>	 <u>(1,740,130)</u>
 Capital assets, net	 <u><u>\$ 5,418,122</u></u>	 <u><u>\$ 5,625,218</u></u>	 <u><u>\$ 1,435,816</u></u>	 <u><u>\$ 9,607,524</u></u>

G. Accounts Payable

As of June 30, 2017 accounts payable consisted of:

	<u>Accounts Payable</u>
Vendors payable	\$ 84,796
Payroll and related benefits	23,866
Oversight fee	57,024
Other liabilities	<u>6,118</u>
 Total Accounts Payable	 <u><u>\$ 171,804</u></u>

H. Unearned Revenue

As of June 30, 2017 unearned revenue consisted of:

Charter School Facilities Grant	<u>\$ 29,396</u>
 Total Unearned Revenue	 <u><u>\$ 29,396</u></u>

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

I. Operating Leases

The School has entered into lease agreements for use of facilities. The agreements do not contain a purchase option and do not meet the requirements for capitalization. As such, the leases have not been recorded on the statement of financial position.

Future minimum lease payments under the agreements are as follows:

<u>Year Ended June 30,</u>	<u>Lease Payments</u>
2018	\$ 910,045
2019	933,693
2020	575,169
2021	<u>553,138</u>
Total	<u>\$ 2,972,045</u>

J. Lease Revenue Bond

In September 2010 the School entered into a loan agreement with California Municipal Finance Authority for the issuance of \$3,725,000 Charter School Lease Revenue Bonds. The funds were used for acquisition, construction, renovation, improving and equipping of certain education facilities located at 698 W. Main Street, El Cajon, California and operated as a campus of Literacy First Charter School. The bonds mature as follows:

<u>Bond Component</u>	<u>Rate</u>	<u>Amount</u>	<u>Maturity Date</u>
2022 Tax-exempt Term Bonds	5.5%	\$ 1,070,000	September 1, 2022
2030 Tax-exempt Term Bonds	6.0%	\$ 2,072,500	September 1, 2030

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 142,500	\$ 176,334	\$ 318,834
2019	148,758	168,495	317,253
2020	157,500	160,317	317,817
2021	167,500	151,650	319,150
2022	177,500	142,437	319,937
2023-2027	1,041,250	540,675	1,581,925
2028-2031	<u>1,174,165</u>	<u>175,050</u>	<u>1,349,215</u>
Total	<u>\$ 3,009,173</u>	<u>\$ 1,514,958</u>	<u>\$ 4,524,131</u>

In conjunction with the issuance of the Lease Revenue Bond the School incurred costs associated with the issuance in the amount of \$394,688. The costs are being amortized over the life of the Bond (30 years) using the straight-line method. Amortization for the year ended June 30, 2017 was \$13,156. The total amount amortized at June 30, 2017 \$88,803. Amortization will be charged annually in the amount of \$13,156 through the life of the Bond.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

K. Temporarily Restricted Ending Net Assets

Temporarily restricted ending net assets consisted of restricted grants which have not yet been fully expended. Once the funds have been expended for an allowable purpose, they will be reclassified to unrestricted net assets. As of June 30, 2017 temporarily restricted ending net assets consisted of:

California Clean Energy Act	\$	168,107
Educator Effectiveness		59,089
College Readiness Grant		75,000
Total Restricted	\$	<u>302,196</u>

L. Functional Expenses

As of June 30, 2017 functional expenses consisted of:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Compensation of officers, directors, trustees and key employees	\$ 640,802	\$ 160,200	\$ 801,002
Other salaries and wages	5,879,598	1,469,900	7,349,498
Pension plan accruals and contributions	710,776	177,694	888,470
Other employee benefits	898,340	224,585	1,122,925
Payroll taxes	178,344	44,586	222,930
Fees for services (non-employees):			
Management	645,253	161,313	806,566
Legal	18,198	4,549	22,747
Accounting	-	12,775	12,775
Other	698,194	174,547	872,741
Advertising and promotion	26,015	6,504	32,519
Office expenses	54,230	13,557	67,787
Information technology	79,655	19,914	99,569
Royalties	-	-	-
Occupancy	929,227	232,307	1,161,534
Travel and Conferences	50,135	12,534	62,669
Interest	-	582	582
Depreciation	-	302,150	302,150
Insurance	72,826	18,207	91,033
Textbooks/Books	126,037	31,509	157,546
Materials/Supplies/Uniforms/Equipment	740,261	181,922	922,183
Total expenses	<u>\$ 11,747,891</u>	<u>\$ 3,249,335</u>	<u>\$ 14,997,226</u>

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

M. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

The School has received federal and state 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, it is believed that any required reimbursement will not be material. As a result, no liability has been accrued.

Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulate sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, it is not appropriate to accrue the value of the accumulated sick leave.

N. Employee Retirement System

Qualified employees are covered under multiple-employer defined benefit pension plans by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS). The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of the other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the School chooses to stop participating in some of its multi-employer plans, the School may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The School's participation in these plans for the fiscal year ended June 30, 2017, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2017, 2016 and 2015 is for the plan's year-end at June 30, 2017, 2016 and 2015, respectively. The zone status is based on information that the School received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. Finally, the number of employees covered by the School's multiemployer plans increased by 20% from 2016 to 2017, affecting the period-to-period comparability of the contributions for years 2016 and 2017. The significant increase in covered employees corresponded to an increase in overall business. There have been no significant changes that affect the comparability of the 2015 and 2016 contributions.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status Year Ended June 30			FIP/RP Status Pending/ Implemented
		2017	2016	2015	
CalSTRS	37012	Yellow	Yellow	Yellow	No
CalPERS	5817850904	Yellow	Yellow	Green	No

Pension Fund	Contributions of School			Number of Employees	Surcharge Imposed
	2017	2016	2015		
CalSTRS	\$ 723,800	\$ 572,167	\$ 479,891	106	No
CalPERS	\$ 164,670	\$ 137,616	\$ 131,663	57	No

CalSTRS:

The School contributes to the State Teachers' Retirement System (CalSTRS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. Required contribution rates are set by the California Legislature and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level of percentage of payroll using the entry age normal actuarial cost method. CalSTRS also uses the level percentage of payroll method to calculate the amortization of any unfunded liability. Copies of the STRS annual report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

For the fiscal year ended June 30, 2017, active plan members were required to contribute between 9.205% and 10.25% of their salary, depending on their hire date. The employer contribution rate was 12.58% of annual payroll. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. The School made contributions as noted above. For the year ended June 30, 2017 the State contributed \$333,055 (7.0578% of creditable salaries from 2013-14) on behalf of the School.

CalPERS:

The School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Benefit provisions are established by state statutes, as legislatively amended, with the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Active plan members were required to contribute between 6% and 7% of their salary, depending on their hire date, and the School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2016-17 were 13.888% of salaries. The School made contributions as noted above.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

O. Subsequent Events

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-02 *Not-for-Profit Entities – Consolidation (Subtopic 958-810)*. FASB issued this update to amend the consolidation guidance in Subtopic 958-810 to clarify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity. ASU 2017-02 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In December 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-19 *Technical Corrections and Improvements*. FASB issued this update to clarify the Accounting Standards Codification and correct unintended application of guidance that is not expected to have significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments include items raised to FASB through Accounting Standards Codification's feedback mechanism. ASU 2016-19 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In October 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-17 *Consolidation (Topic 810)*. FASB issued this update to amend the consolidation guidance on how a reporting entity that is a single decision maker of a Variable Interest Entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. ASU 2016-17 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-07 *Investments – Equity Method and Joint Ventures (Topic 323)*. FASB issued this update as a part of their Simplification Initiative by eliminating a requirement to retroactively adopt the equity method of accounting given that there is no clear benefit to users of financial statements. ASU 2016-07 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-16 *Business Combinations (Topic 805)*. FASB issued this update as part of their Simplification Initiative by amending the presentation of business combinations disclosing the effect on earnings of changes in depreciation, amortization, or other income effects, if any. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous recognition reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11 *Inventory*. FASB issued this update as part of their Simplification Initiative by eliminating unnecessarily complex measurement of inventory at the lower of cost or market given that there were several potential outcomes. Under the new guidance inventory should be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This measure is in effect for all forms of inventory valuation except Last In First Out (LIFO). ASU 2015-11 becomes effective for the years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-09 *Financial Services – Insurance (Topic 944)*. FASB issued this update to provide guidance on note disclosure requirements for short-duration insurance contracts to increase transparency of significant estimates made in measuring liabilities associated with short-duration insurance contracts. ASU 2015-09 becomes effective for the years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-04 *Compensation – Retirement Benefits (Topic 715)*.

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-02 *Consolidation (Topic 810)*. FASB issued this update to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-15 *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*. FASB issued this update to provide guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 becomes effective for years that begin after December 15, 2016. The Charter School has adopted the provisions of this FASB update for the 2017-18 fiscal year.

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Supplementary Information

LITERACY FIRST CHARTER SCHOOL

Organization Structure
Year Ended June 30, 2017

Literacy First Charter School (Charter #405) was formed pursuant to Education Code 47600 under the agreement with the San Diego County Office of Education granted in June 2001.

GOVERNING BOARD

Name	Office	Term and Term Expiration
Sal Campos	President	Permanent
Lori Ague	Secretary/Treasurer	Permanent
Priscilla Schreiber	Trustee	Permanent
Mark Ferguson	Trustee	Permanent
Richard Willis	Trustee	Permanent
Brent Watson	Trustee	Permanent

ADMINISTRATION

Debbie Beyer
Director

Jerry Keough
Business Manager

LITERACY FIRST CHARTER SCHOOL

Schedule of Average Daily Attendance

Year Ended June 30, 2017

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
Classroom Based Attendance:				
Grades K-3	579.84	N/A	587.96	N/A
Grades 4-6	400.04	N/A	406.84	N/A
Grades 7-8	238.22	N/A	239.10	N/A
Grades 9-12	314.89	N/A	313.74	N/A
Total Classroom Based Attendance	<u>1,532.99</u>	<u>N/A</u>	<u>1,547.64</u>	<u>N/A</u>
Non-Classroom Based Attendance:				
Grades K-3	9.42	N/A	10.42	N/A
Grades 4-6	7.21	N/A	8.85	N/A
Grades 7-8	1.24	N/A	1.41	N/A
Total Non-Classroom Based Attendance	<u>17.87</u>	<u>N/A</u>	<u>20.68</u>	<u>N/A</u>
Total Average Daily Attendance	<u>1,550.86</u>	<u>N/A</u>	<u>1,568.32</u>	<u>N/A</u>

N/A – There were no audit findings which resulted in revisions to the second period or annual reports of attendance.

LITERACY FIRST CHARTER SCHOOL

Schedule of Instructional Time

Year Ended June 30, 2017

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Traditional Days</u>	<u>Status</u>
Kindergarten	36,000	36,200	181	Complied
Grade 1	50,400	63,905	181	Complied
Grade 2	50,400	63,905	181	Complied
Grade 3	50,400	63,905	181	Complied
Grade 4	54,000	69,365	181	Complied
Grade 5	54,000	69,365	181	Complied
Grade 6	54,000	69,365	181	Complied
Grade 7	54,000	69,365	181	Complied
Grade 8	54,000	69,365	181	Complied
Grade 9	64,800	65,645	181	Complied
Grade 10	64,800	65,645	181	Complied
Grade 11	64,800	65,645	181	Complied
Grade 12	64,800	65,645	181	Complied

LITERACY FIRST CHARTER SCHOOL

Schedule of Financial Trends and Analysis

Year Ended June 30, 2017

	Budget				
	2018	2017	2016	2015	2014
Revenues	\$ 16,460,515	\$ 16,533,263	\$ 15,662,236	\$ 13,173,008	\$ 13,044,592
Expenses	15,953,360	14,997,227	13,292,931	12,349,743	10,964,594
Change in Net Assets	507,155	1,536,036	2,369,305	823,265	2,079,998
Ending Net Assets	<u>\$ 14,212,982</u>	<u>\$ 13,705,827</u>	<u>\$ 12,169,791</u>	<u>\$ 9,800,486</u>	<u>\$ 8,977,221</u>
Unrestricted Net Assets	<u>\$ 12,725,749</u>	<u>\$ 13,167,720</u>	<u>\$ 11,620,554</u>	<u>\$ 9,251,249</u>	<u>\$ 8,644,479</u>
Unrestricted net assets as a percentage of total expenses	<u>80%</u>	<u>88%</u>	<u>87%</u>	<u>75%</u>	<u>79%</u>
Total Long Term Debt	<u>\$ 2,573,934</u>	<u>\$ 3,009,163</u>	<u>\$ 3,142,500</u>	<u>\$ 3,267,500</u>	<u>\$ 3,267,500</u>
Average Daily Attendance at P2	<u>1,589</u>	<u>1,550</u>	<u>1,556</u>	<u>1,533</u>	<u>1,513</u>

LITERACY FIRST CHARTER SCHOOL

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements
Year Ended June 30, 2017

June 30, 2017 annual financial alternative form net assets	<u>\$ 13,542,424</u>
Adjustments and reclassifications:	
Adjustment of interest income	582
Adjustment of depreciation and amortization	(315,306)
Understatement of accounts receivable	<u>242,216</u>
Total adjustments and reclassifications	<u>(72,508)</u>
June 30, 2017 audited financial statement net assets	<u><u>\$ 13,469,916</u></u>

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LITERACY FIRST CHARTER SCHOOL

Notes to the Supplementary Information
Year Ended June 30, 2017

A. Purpose of Schedules

Organization Structure

This schedule provides information about the School's charter number, district of authorization, members of the governing board, and members of administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measure of the number of pupils attending classes of the 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.

Schedule of Instructional Time

The School receives incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the School and whether they complied with the provisions of Education Code Sections 46200 through 46206. Charter schools must maintain their instructional minutes at the 1986-87 requirements as adjusted by Education Code sections later adopted. The School neither met nor exceeded its LCFF target.

Schedule of Financial Trends and Analysis

Budget information for 2018 is presented for analysis purposes only and is based on estimates of the 2017-18 fiscal year. The information has not been subject to audit.

This schedule discloses the School's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the School's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance as reported on the Unaudited Financial Report Alternative Form to the net assets reported in the audited financial statements.

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Other Independent Auditors' Reports

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*

To the Board of Trustees of
Literacy First Charter School

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 Literacy First Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Literacy First Charter 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 Literacy First Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Literacy First Charter 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 Literacy First Charter School'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 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.

El Cajon, California
December 5, 2017

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Independent Auditor's Report on State Compliance

To the Board of Directors
Literacy First Charter School

Report on State Compliance

We have audited the School's compliance with the types of compliance requirements described in the *2016-17 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 the School's state programs identified below for the fiscal year ended June 30, 2017.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit Guide *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance*, prescribed in Title 5, *California Code of Regulations*, section 19810. 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's audit guide *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below. 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. Our audit does not provide a legal determination of the district's compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools	
Attendance.....	N/A
Teacher Certification and Misassignments	N/A
Kindergarten Continuance.....	N/A
Independent Study.....	N/A
Continuation Education.....	N/A
Instructional Time	N/A
Instructional Materials.....	N/A
Ratio of Administrative Employees to Teachers.....	N/A
Classroom Teacher Salaries	N/A
Early Retirement Incentive.....	N/A
Gann Limit Calculation.....	N/A
School Accountability Report Card.....	N/A
Juvenile Court Schools.....	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	N/A
Transportation Maintenance of Effort.....	N/A
Mental Health Expenditures.....	N/A
School Districts, County Offices of Education and Charter Schools	
Educator Effectiveness.....	Yes
California Clean Energy Jobs Act.....	Yes
After School Education and Safety Program.....	N/A
Proper Expenditure of Education Protection Account Funds.....	Yes
Unduplicated Local Control Funding Formula Pupil Counts.....	Yes
Local Control and Accountability Plan.....	Yes
Independent Study – Course Based.....	N/A
Immunizations.....	Yes
Charter Schools	
Attendance.....	Yes
Mode of Instruction.....	Yes
Nonclassroom Based Instruction/Independent Study.....	N/A
Determination of Funding for Nonclassroom Based Instruction.....	N/A
Annual Instructional Minutes – Classroom Based.....	Yes
Charter School Facility Grant Program.....	Yes

The term N/A is used above to mean either the School did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Literacy First Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing. This report is an integral part of an audit performed in accordance with *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Accordingly, this report is not suitable for any other purpose.

El Cajon, California
December 5, 2017

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Auditor's Results, Findings & Recommendations

LITERACY FIRST CHARTER SCHOOL

Schedule of Auditor's Results

Year Ended June 30, 2017

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

STATE AWARDS

Any audit findings disclosed that are required to be reported in accordance with *2016-17 Guide for Annual Audits of California K-12 Local Education Agencies*? Yes X No

Type of auditor's report issued on compliance for state programs: Unmodified

LITERACY FIRST CHARTER SCHOOL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. The findings have been coded 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
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

A. Financial Statement Findings

None

B. State Award Findings

None

LITERACY FIRST CHARTER SCHOOL

Schedule of Prior Year Audit Findings

Year Ended June 30, 2017

Finding/Recommendation	Status	Explanation if Not Implemented
There were no findings reported in the prior year audit.	N/A	N/A

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