

LITERACY FIRST CHARTER SCHOOL
CHARTER SCHOOL #405
SAN DIEGO, CALIFORNIA

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2018

LITERACY FIRST CHARTER SCHOOL
Financial Statements and Supplemental Information
Year Ended June 30, 2018

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Independent Auditor’s Report

To the Board of Directors 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 consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, and consolidated cash flows for the year then ended, and the related notes to the consolidated 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, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the *2017-18 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 4, 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.

Williamson Atteley King & Co., LLP

El Cajon, California
December 4, 2018

Financial Statements

LITERACY FIRST CHARTER SCHOOL

Consolidated Statement of Financial Position

June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 5,680,161
Accounts receivable	1,070,073
Prepaid cost of issuance	292,729
Prepaid expenses	150,611
Total Current Assets	<u>7,193,574</u>

Noncurrent Assets

Capital assets, net	<u>10,467,513</u>
Total Noncurrent Assets	<u>10,467,513</u>

TOTAL ASSETS \$ 17,661,087

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 330,022
Loan payable, current portion	148,748
Total Current Liabilities	<u>478,770</u>

Long Term Liabilities

Loan payable, less current portion	<u>2,718,751</u>
Total Long Term Liabilities	<u>2,718,751</u>

Total Liabilities 3,197,521

Net Assets

Unrestricted	14,403,966
Temporarily restricted	59,600
Total Net Assets	<u>14,463,566</u>

TOTAL LIABILITIES AND NET ASSETS \$ 17,661,087

The accompanying notes are an integral part of this statement.

LITERACY FIRST CHARTER SCHOOL

Consolidated Statement of Activities

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Revenue			
LCFF state aid, current year	\$ 8,166,088	\$ -	\$ 8,166,088
LCFF state aid, prior year	(242,216)	-	(242,216)
Education protection account funds	2,233,716	-	2,233,716
Payments in lieu of property taxes	3,000,828	-	3,000,828
Federal revenue	-	44,881	44,881
Other state revenue	268,277	2,141,600	2,409,877
Interest	60,120	-	60,120
Other local revenue	546,524	-	546,524
Total Revenues	<u>14,033,337</u>	<u>2,186,481</u>	<u>16,219,818</u>
Net assets released from restrictions:			
Grant restrictions satisfied	<u>2,404,737</u>	<u>(2,404,737)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>16,438,074</u>	<u>(218,256)</u>	<u>16,219,818</u>
EXPENSES			
Certificated salaries	6,967,533	-	6,967,533
Noncertificated salaries	1,706,323	-	1,706,323
Taxes and employee benefits	2,369,646	-	2,369,646
Books and supplies	926,099	-	926,099
Rentals, leases and repairs	1,545,269	-	1,545,269
Other operating expenditures	1,447,541	-	1,447,541
Amortization expense	13,156	-	13,156
Depreciation expense	288,752	-	288,752
TOTAL EXPENSES	<u>15,264,319</u>	<u>-</u>	<u>15,264,319</u>
CHANGE IN NET ASSETS	1,173,755	(218,256)	955,499
NET ASSETS, BEGINNING OF YEAR¹	<u>13,230,211</u>	<u>277,856</u>	<u>13,508,067</u>
NET ASSETS, END OF YEAR	<u>\$ 14,403,966</u>	<u>\$ 59,600</u>	<u>\$ 14,463,566</u>

¹See Note O for Restatement of Beginning Net Assets

The accompanying notes are an integral part of this statement.

LITERACY FIRST CHARTER SCHOOL

Consolidated Statement of Cash Flows

Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 955,499
Depreciation	288,752
Amortization	13,156
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) Decrease resulting from changes in assets:	
Accounts receivable	438,800
Prepaid cost of issuance	(292,729)
Prepaid expenses	394,963
Increase (Decrease) resulting from changes in liabilities:	
Accounts payable	133,878
Unearned revenue	(29,396)

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES 1,902,923

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets	(1,148,741)
Increase in investments	410,917

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES (737,824)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from loan payable	292,729
Principal payments on loan payable	(141,664)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES 151,065

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 1,316,164

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 4,363,997

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 5,680,161

The accompanying notes are an integral part of this statement.

LITERACY FIRST CHARTER SCHOOL

Notes to the Financial Statements

Year Ended June 30, 2018

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 Consolidation

The accompanying consolidated financial statements include accounts of Literacy First Charter School and Literacy First Charter School Issuer LLC (LLC). All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ from those estimates.

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.

LITERACY FIRST CHARTER SCHOOL

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

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.

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. As of June 30, 2018 the School did have investments.

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.

As of June 30, 2018, the School does not have any unearned revenue.

LITERACY FIRST CHARTER SCHOOL

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

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.

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 81% 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, 2018, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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, 2018.

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.

New Accounting Guidance

The Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) that are effective during the 2017-18 fiscal year:

1. FASB ASU 2018-06 *Codification Improvements to Topic 942, Financial Services – Depository and Lending*
2. FASB ASU 2017-05 *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*
3. FASB ASU 2016-17 *Consolidation (Topic 810): Interests Held through Related Parties that are under Common Control*
4. FASB ASU 2016-07 *Investments – Equity Method and Joint Ventures (Topic 323)*

These updates were issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The updates effective during the 2017-18 fiscal year did not impact the financial accounting or presentation for the School. No adjustments have been made as a result of the new accounting guidance.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 18, 2018, 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 (\$4,938,740 as of June 30, 2018). 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.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

Cash in Bank

The remainder of the School's cash (\$224,194 as of June 30, 2018) 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, 2018, the School did not have any cash that was exposed to uninsured deposit risk.

Cash with Fiscal Agent

The School's cash with fiscal agent at June 30, 2018 are shown below.

Account Type	Maturity	Fair Value
Money Market Funds	<30 Days	\$ 517,227
		\$ 517,227

C. Accounts Receivable

As of June 30, 2018, accounts receivable consisted of:

	Accounts Receivable
Federal Government:	
Special Education	\$ 22,948
State Government:	
Special Education	92,280
Charter School Facility Grant	648,985
Lottery Revenue	69,091
Local Sources:	
Interest	21,288
In Lieu of Property Taxes	204,323
Other Local Sources	11,158
Total Accounts Receivable	\$ 1,070,073

D. Prepaid Expenses

As of June 30, 2018, prepaid expenses consisted of:

	Prepaid Expenses
Prepaid rent	\$ 98,498
Prepaid vendors	52,113
Total Prepaid Expenses	\$ 150,611

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

E. Capital Assets

As of June 30, 2018, Literacy First Charter School's capital assets consisted of:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 4,853,045	\$ -	\$ -	\$ 4,853,045
Work in progress	1,407,476	486,715	-	1,894,191
Land improvements	-	38,686	-	38,686
Equipment	484,991	373,571	-	858,562
Total capital assets	6,745,512	898,972	-	7,644,484
Less accumulated depreciation	(439,033)	(73,897)	-	(512,930)
Capital assets, net	\$ 6,306,479	\$ 825,075	\$ -	\$ 7,131,554

As of June 30, 2018, Literacy First Charter School Issuer LLC's capital assets consisted of:

	Beginning Balance	Increases	Decreases	Ending Balance
Building	\$ 4,602,142	\$ 249,769	\$ -	\$ 4,851,911
Total capital assets	4,602,142	249,769	-	4,851,911
Less accumulated depreciation	(1,301,097)	(214,855)	-	(1,515,952)
Capital assets, net	\$ 3,301,045	\$ 34,914	\$ -	\$ 3,335,959

As of June 30, 2018, consolidated capital assets consisted of:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 4,853,045	\$ -	\$ -	\$ 4,853,045
Work in progress	1,407,476	486,715	-	1,894,191
Building	4,602,142	249,769	-	4,851,911
Land improvements	-	38,686	-	38,686
Equipment	484,991	373,571	-	858,562
Total capital assets	11,347,654	1,148,741	-	12,496,395
Less accumulated depreciation	(1,740,130)	(288,752)	-	(2,028,882)
Capital assets, net	\$ 9,607,524	\$ 859,989	\$ -	\$10,467,513

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

F. Accounts Payable

As of June 30, 2018, consolidated accounts payable consisted of:

	Accounts Payable
Vendors payable	\$ 122,872
District oversight fee	134,524
Payroll and benefits	39,465
Payable to Grantor Government	146,302
Other payables	24,340
 Total Accounts Payable	 \$ 467,503

G. Lease Revenue Bond

In September 2010 the LLC 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 remaining bonds mature as follows:

Bond Component	Rate	Amount	Maturity Date
2022 Tax-exempt Term Bonds	5.50%	\$ 1,070,000	September 1, 2022
2030 Tax-exempt Term Bonds	6.00%	\$ 2,072,500	September 1, 2030

Year Ended June 30,	Principal	Interest	Total
2019	\$ 148,748	\$ 168,495	\$ 317,243
2020	157,500	160,317	317,817
2021	167,500	151,650	319,150
2022	177,500	142,437	319,937
2023	183,750	128,175	311,925
2024-2028	1,103,750	482,925	1,586,675
2029-2032	928,751	104,625	1,033,376
 Total	 \$ 2,867,499	 \$ 1,338,624	 \$ 4,206,123

In conjunction with the issuance of the Lease Revenue Bond, the LLC 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, 2018 was \$13,156. The total amount amortized at June 30, 2018 is \$101,959. 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, 2018

H. Temporarily Restricted Net Assets

Temporarily restricted ending net assets consisted of net investment in capital assets and restricted grants which have not been fully expensed. Once the funds have been expended for an allowable purpose, they will be reclassified to unrestricted net assets. As of June 30, 2018, temporarily restricted ending net assets consisted of:

College Readiness Block Grant	\$ 59,600
Total Temporarily Restricted Net Assets	\$ 59,600

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 agreement are as follows:

Year Ended June 30,	Lease Payments
2019	\$ 933,693
2020	575,169
2021	553,138
Total	\$ 2,062,000

J. 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 accumulated is limited to 20 days 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.

K. 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.

LITERACY FIRST CHARTER SCHOOL

Notes to the Financial Statements (Continued)

Year Ended June 30, 2018

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, 2018, 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 2018, 2017 and 2016 is for the plan’s year-end at June 30, 2018, 2017 and 2016, 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 13% from 2017 to 2018 and increased by 20% from 2016 to 2017 affecting the period-to-period comparability of the contributions. The significant increase in covered employees corresponded to an increase in overall business.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status Year Ended June 30			FIP/RP Status Pending/ Implemented
		2018	2017	2016	
		CalSTRS	37012	Yellow	
CalPERS	5817850904	Yellow	Yellow	Yellow	No

Pension Fund	Contributions of School			Number of Employees	Surcharge Imposed
	2018	2017	2016		
CalSTRS	\$ 902,646	\$ 723,800	\$ 572,167	138	No
CalPERS	\$ 223,804	\$ 164,670	\$ 137,616	47	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, 2018, 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 14.43% 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, 2018 the State contributed \$462,647 (6.64% of creditable salaries from 2017-18) 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.

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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 6.5% 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 2017-18 were 15.531% of salaries. The School made contributions as noted above.

L. Functional Expenses

As of June 30, 2018, functional expenses consisted of:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Compensation of officers, directors, trustees and key employees	\$ 802,916	\$ 200,729	\$ 1,003,645
Other salaries and wages	6,136,169	1,534,042	7,670,211
Pension plan accruals and contributions	901,160	225,290	1,126,450
Other employee benefits	97,703	24,426	122,129
Payroll taxes	896,854	224,213	1,121,067
Fees for services (non-employees):			
Legal	40,485	10,121	50,606
Accounting	-	13,475	13,475
Other: Consultants	346,852	27,785	374,637
Other: District oversight fees	107,619	26,905	134,524
Advertising and promotion	34,327	8,582	42,909
Office expenses	326,928	81,732	408,660
Occupancy	803,148	200,787	1,003,935
Travel	49,916	12,479	62,395
Conferences, conventions and meetings	25,457	6,364	31,821
Depreciation	-	288,752	288,752
Amortization	-	13,156	13,156
Insurance	70,887	17,722	88,609
All other expenses:			
Books and curriculum	85,398	-	85,398
Materials and supplies	601,048	150,262	751,310
Noncapitalized equipment	71,513	17,878	89,391
Leases and repairs	433,067	108,267	541,334
License fees	-	23,033	23,033
Taxes and fees	-	26,541	26,541
Student events	163,843	-	163,843
Dues and memberships	-	16,750	16,750
Other services and operating expenses	7,790	1,948	9,738
Total expenses	<u>\$ 12,003,080</u>	<u>\$ 3,261,239</u>	<u>\$ 15,264,319</u>

LITERACY FIRST CHARTER SCHOOL
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

M. Upcoming Changes in Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) that become effective during the 2018-19 fiscal year:

1. FASB ASU 2018-03 *Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*
2. FASB ASU 2017-09 *Compensation – Stock Compensation (Topic 718)*
3. FASB ASU 2017-07 *Compensation – Retirement Benefits (Topic 715)*
4. FASB ASU 2017-01 *Business Combinations (Topic 805)*
5. FASB ASU 2016-16 *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*
6. FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*
7. FASB ASU 2016-09 *Compensation – Stock Compensation (Topic 718)*
8. FASB ASU 2016-06 *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*
9. FASB ASU 2016-05 *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*
10. FASB ASU 2016-04 *Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored Value Products*
11. FASB ASU 2015-17 *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*

These updates were issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The updates effective during the 2018-19 fiscal year will not impact the financial accounting or presentation for the School with exception of FASB ASU 2016-14.

FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* changes the classification and presentation of net assets. In addition, the update will provide for enhanced note disclosures that affect Not-for-Profit entities. No adjustments have been made as a result of the new accounting guidance.

N. Adjustment to Beginning Net Assets

An adjustment to beginning net assets was made to increase accounts payable for the remaining amount of the Educator Effectiveness entitlement that was not spent as of June 30, 2018 and to eliminate the accumulated amortization in prepaid expenses that should have been reversed in the prior fiscal years. Beginning net assets were adjusted as follows:

Net Assets, Beginning (As Originally Stated)	\$ 13,469,916
Adjustments for:	
Increase in accounts payable	(24,340)
Increase in prepaid expenses	62,491
	38,151
Total adjustments	38,151
Net Assets, Beginning (Restated)	\$ 13,508,067

Supplementary Information

LITERACY FIRST CHARTER SCHOOL
Consolidated Combining Statement of Financial Position
Year Ended June 30, 2018

	Literacy First Charter School	Literacy First Charter School Issuer LLC	Elimination	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 5,680,161	\$ -	\$ -	\$ 5,680,161
Accounts receivable	1,070,073	-	-	1,070,073
Prepaid cost of issuance	292,729	-	-	292,729
Prepaid expenditures	150,611	-	-	150,611
Total Current Assets	<u>7,193,574</u>	<u>-</u>	<u>-</u>	<u>7,193,574</u>
Fixed Assets				
Property and equipment, net	\$ 7,131,554	\$ 3,335,959	\$ -	10,467,513
Total Non Current Assets	<u>7,131,554</u>	<u>3,335,959</u>	<u>-</u>	<u>10,467,513</u>
TOTAL ASSETS	<u>\$ 14,325,128</u>	<u>\$ 3,335,959</u>	<u>\$ -</u>	<u>\$ 17,661,087</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 330,022	\$ -	\$ -	\$ 330,022
Loan payable, current portion	-	148,748	-	148,748
Total Current Liabilities	<u>330,022</u>	<u>148,748</u>	<u>-</u>	<u>478,770</u>
Long Term Liabilities				
Loan payable, less current portion	-	2,718,751	-	2,718,751
Total Long Term Liabilities	<u>-</u>	<u>2,718,751</u>	<u>-</u>	<u>2,718,751</u>
Total Liabilities	<u>330,022</u>	<u>2,867,499</u>	<u>-</u>	<u>3,197,521</u>
Net Assets				
Unrestricted	\$ 13,935,506	\$ 468,460	\$ -	\$ 14,403,966
Temporarily restricted	59,600	-	-	59,600
Total Net Assets	<u>13,995,106</u>	<u>468,460</u>	<u>-</u>	<u>14,463,566</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,325,128</u>	<u>\$ 3,335,959</u>	<u>\$ -</u>	<u>\$ 17,661,087</u>

See accompanying notes to supplementary information

LITERACY FIRST CHARTER SCHOOL
Consolidated Combining Statement of Activities
Year Ended June 30, 2018

	Literacy First Charter School		Literacy First Charter School LLC		Elimination	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	
REVENUE AND SUPPORT						
Revenue						
State aid, current year	\$ 8,166,088	\$ -	\$ -	\$ -	\$ -	\$ 8,166,088
State aid, prior year	(242,216)	-	-	-	-	(242,216)
Education protection account funds	2,233,716	-	-	-	-	2,233,716
Payments in lieu of property taxes	3,000,828	-	-	-	-	3,000,828
Federal revenue	-	44,881	-	-	-	44,881
Other state revenue	268,277	2,141,600	-	-	-	2,409,877
Interest income	60,120	-	-	-	-	60,120
Other local revenue	227,690	-	318,834	-	-	546,524
Total Revenues	<u>13,714,503</u>	<u>2,186,481</u>	<u>318,834</u>	<u>-</u>	<u>-</u>	<u>16,219,818</u>
Net assets released from restriction:						
Grant restrictions satisfied	\$ 2,404,737	\$ (2,404,737)	\$ -	\$ -	\$ -	-
TOTAL REVENUE AND SUPPORT	<u>\$ 16,119,240</u>	<u>\$ (218,256)</u>	<u>\$ 318,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,219,818</u>
EXPENSES						
Certificated salaries	6,967,533	-	-	-	-	6,967,533
Noncertificated salaries	1,706,323	-	-	-	-	1,706,323
Taxes and employee benefits	2,369,646	-	-	-	-	2,369,646
Books and supplies	926,099	-	-	-	-	926,099
Rentals, leases and repairs	1,226,435	-	142,500	-	-	1,368,935
Other operating expenditures	1,447,541	-	-	-	-	1,447,541
Debt service interest	-	-	176,334	-	-	176,334
Amortization expense	13,156	-	-	-	-	13,156
Depreciation expense	73,897	-	214,855	-	-	288,752
Total Expenses	<u>14,730,630</u>	<u>-</u>	<u>533,689</u>	<u>-</u>	<u>-</u>	<u>15,264,319</u>
CHANGE IN NET ASSETS	1,388,610	(218,256)	(214,855)	-	-	955,499
NET ASSETS, BEGINNING OF YEAR	<u>12,546,896</u>	<u>277,856</u>	<u>683,315</u>	<u>-</u>	<u>-</u>	<u>13,508,067</u>
NET ASSETS, END OF YEAR	<u>\$ 13,935,506</u>	<u>\$ 59,600</u>	<u>\$ 468,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,463,566</u>

See accompanying notes to supplementary information

LITERACY FIRST CHARTER SCHOOL

Organization Structure
Year Ended June 30, 2018

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

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
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, 2018

	<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	589.60	N/A	589.90	N/A
Grades 4-6	407.31	N/A	407.49	N/A
Grades 7-8	242.35	N/A	242.44	N/A
Grades 9-12	333.00	N/A	329.70	N/A
Total Classroom Based Attendance	<u>1,572.26</u>	<u>N/A</u>	<u>1,569.53</u>	<u>N/A</u>
Non-Classroom Based Attendance:				
Grades K-3	11.47	N/A	11.34	N/A
Grades 4-6	8.62	N/A	8.99	N/A
Grades 7-8	7.03	N/A	7.40	N/A
Grades 9-12	-	N/A	-	N/A
Total Non-Classroom Based Attendance	<u>27.12</u>	<u>N/A</u>	<u>27.73</u>	<u>N/A</u>
Total Attendance	<u>1,599.38</u>	<u>N/A</u>	<u>1,597.26</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, 2018

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Traditional Days</u>	<u>Status</u>
Kindergarten	36,000	36,200	181	Complied
Grade 1	50,400	64,055	181	Complied
Grade 2	50,400	64,055	181	Complied
Grade 3	50,400	64,055	181	Complied
Grade 4	54,000	64,460	181	Complied
Grade 5	54,000	64,460	181	Complied
Grade 6	54,000	64,460	181	Complied
Grade 7	54,000	66,030	181	Complied
Grade 8	54,000	66,030	181	Complied
Grade 9	64,800	65,025	181	Complied
Grade 10	64,800	65,025	181	Complied
Grade 11	64,800	65,025	181	Complied
Grade 12	64,800	65,025	181	Complied

See accompanying notes to supplementary information

LITERACY FIRST CHARTER SCHOOL

Schedule of Financial Trends and Analysis

Year Ended June 30, 2018

	Budget				
	2019	2018	2017	2016	2015
Revenues	\$17,385,294	\$16,219,818	\$16,509,506	\$15,662,236	\$13,173,008
Expenses	16,697,304	15,264,319	14,934,735	13,292,931	12,349,743
Change in Net Assets	687,990	955,499	1,574,771	2,369,305	823,265
Ending Net Assets	<u>\$15,151,556</u>	<u>\$14,463,566</u>	<u>\$13,508,067</u>	<u>\$11,933,296</u>	<u>\$9,563,991</u>
Unrestricted Net Assets	<u>\$15,151,556</u>	<u>\$14,403,966</u>	<u>\$13,167,720</u>	<u>\$11,824,678</u>	<u>\$9,455,373</u>
Unrestricted net assets as a percentage of total expenses	<u>91%</u>	<u>94%</u>	<u>88%</u>	<u>89%</u>	<u>77%</u>
Total Long Term Debt	<u>\$2,561,251</u>	<u>\$2,718,751</u>	<u>\$3,009,163</u>	<u>\$3,142,500</u>	<u>\$3,267,500</u>
Average Daily Attendance at P2	<u>1,635</u>	<u>1,599</u>	<u>1,550</u>	<u>1,556</u>	<u>1,533</u>

The School's ending net assets has increased by \$132,234 (16%) over the past three fiscal years. The increase is due to the increase in average daily attendance of 66 (4%) over the past three years combined with a commitment to build reserves to protect the school from changes in economic trends in future years. The 2018-19 fiscal year budget projects an increase in net assets of \$687,990 (4.8%).

LITERACY FIRST CHARTER SCHOOL

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements
Year Ended June 30, 2018

June 30, 2018 annual financial alternative form net assets	\$ 14,621,013
Adjustments and reclassifications:	
Understatement of cash with fiscal agent	106,310
Overstatement of prepaid expenses	(39,468)
Understatement of accounts payable	(24,340)
Overstatement of capital assets	<u>(199,949)</u>
Total adjustments and reclassifications	<u>(157,447)</u>
June 30, 2018 audited financial statement net assets	<u><u>\$ 14,463,566</u></u>

See accompanying notes to supplementary information

LITERACY FIRST CHARTER SCHOOL

Notes to the Supplementary Information
Year Ended June 30, 2018

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 2019 is presented for analysis purposes only and is based on estimates of the 2018-19 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.

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 Directors 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, 2018, 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 4, 2018.

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.

Williamson Aibel King & Co. LLP

El Cajon, California
December 4, 2018



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Mark Bomediano, CPA

Aubrey W. Mann, CPA
Kevin A. Sproul, CPA

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 *2017-18 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, 2018.

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 *2017-18 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 *2017-18 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
Apprenticeship: Related and Supplemental Instruction	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
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, 2018.

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 *2017-18 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.

William Appleby King & Co., LLP

El Cajon, California
December 4, 2018

Auditor's Results, Findings & Recommendations

LITERACY FIRST CHARTER SCHOOL

Schedule of Auditor's Results

Year Ended June 30, 2018

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 *2017-18 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, 2018

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 *2017-18 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, 2018

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