



LITERACY FIRST CHARTER SCHOOLS

CONSOLIDATED AUDIT REPORT

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

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

Literacy First Charter School (Charter No. 0405)

AND CONSOLIDATED WITH

Literacy First Charter School Issuer, LLC

LITERACY FIRST CHARTER SCHOOLS
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JUNE 30, 2022

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Literacy First Charter Schools
El Cajon, California

Report on the Consolidated Financial Statements

Opinion

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Literacy First Charter Schools as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Literacy First Charter Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Literacy First Charter Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Literacy First Charter Schools' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated 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 consolidated financial statements or to the consolidated 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 consolidated 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 November 21, 2022, on our consideration of Literacy First Charter Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Literacy First Charter Schools' internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
November 21, 2022

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

Current assets	
Cash and cash equivalents	\$ 12,266,361
Accounts receivable	1,822,983
Prepaid expenses	689,554
Security deposits, current	25,000
Total current assets	<u>14,803,898</u>
Noncurrent assets	
Security deposits, noncurrent	25,000
Capital assets, net	18,947,864
Total noncurrent assets	<u>18,972,864</u>
Total Assets	<u>\$ 33,776,762</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 2,497,171
Deferred revenue	1,815,541
Deferred rent	122,611
Bonds payable, current portion	225,833
Total current liabilities	<u>4,661,156</u>
Long-term liabilities	
Bonds payable, net	<u>10,547,345</u>
Total long-term liabilities	<u>10,547,345</u>
Total liabilities	<u>15,208,501</u>
Net assets	
Without donor restrictions	18,335,710
With donor restrictions	232,551
Total net assets	<u>18,568,261</u>
Total Liabilities and Net Assets	<u>\$ 33,776,762</u>

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

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 14,392,548	\$ -	\$ 14,392,548
Federal revenues	1,701,199	-	1,701,199
Other state revenues	3,020,394	232,551	3,252,945
Total federal and state support and revenues	19,114,141	232,551	19,346,692
Local support and revenues			
Payments in lieu of property taxes	4,035,794	-	4,035,794
Investment income (loss), net	(269,054)	-	(269,054)
Rental income	215,943	-	215,943
Other local revenues	1,942,447	-	1,942,447
Total local support and revenues	5,925,130	-	5,925,130
Total Support and Revenues	25,039,271	232,551	25,271,822
EXPENSES			
Program services	18,738,770	-	18,738,770
Management and general	4,138,470	-	4,138,470
Total Expenses	22,877,240	-	22,877,240
CHANGE IN NET ASSETS	2,162,031	232,551	2,394,582
Net Assets - Beginning, as restated	16,173,679	-	16,173,679
Net Assets - Ending	\$ 18,335,710	\$ 232,551	\$ 18,568,261

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

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 8,692,172	\$ 723,323	\$ 9,415,495
Non-certificated salaries	1,571,006	990,774	2,561,780
Deferred compensation	2,646,738	319,921	2,966,659
Payroll taxes	497,144	126,751	623,895
Other employee benefits	986,080	151,073	1,137,153
Total personnel expenses	14,393,140	2,311,842	16,704,982
Non-personnel expenses			
Books and supplies	942,132	196,722	1,138,854
Insurance	-	193,623	193,623
Facilities	1,251,881	333,662	1,585,543
Professional services	926,940	494,498	1,421,438
Depreciation	532,701	59,189	591,890
Interest expense	308,416	34,269	342,685
Fees to authorizing agency	-	185,658	185,658
Other operating expenses	383,560	329,007	712,567
Total non-personnel expenses	4,345,630	1,826,628	6,172,258
Total Expenses	\$ 18,738,770	\$ 4,138,470	\$ 22,877,240

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

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,394,582
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	591,890
Interest expense for amortization of issuance costs	(165,546)
(Increase) decrease in operating assets	
Accounts receivable	556,148
Prepaid expenses	(162,440)
Security deposits	100,824
Increase (decrease) in operating liabilities	
Accounts payable	1,930,046
Deferred rent	7,538
Deferred revenue	1,056,129
Net cash provided by (used in) operating activities	<u>6,309,171</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets	<u>(1,319,761)</u>
Net cash provided by (used in) investing activities	<u>(1,319,761)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on bonds payable	<u>(215,833)</u>
Net cash provided by (used in) financing activities	<u>(215,833)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 4,773,577

Cash and cash equivalents - Beginning 7,492,784

Cash and cash equivalents - Ending \$ 12,266,361

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u>\$ 508,231</u>
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The notes to the consolidated financial statements are an integral part of this statement.

**LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Literacy First Charter Schools (the “Organization”) was formed as a nonprofit public benefit corporation on November 30, 2000 for the purpose of operating as a California public school located in San Diego County. The Organization’s school, Literacy First Charter School (the “Charter”), was numbered by the State Board of Education as California Charter No. 0405. Literacy First Charter School exists to nurture the whole child from kindergarten through high school graduation by igniting a passion for comprehensive literacy and equipping them to wholeheartedly participate in their community.

Literacy First Charter School is authorized to operate as a charter school through San Diego County Office of Education (the “authorizing agency”). On April 14, 2021, the Board of Directors of San Diego County Office of Education approved a charter renewal and material revision for the Charter for a 5-year term beginning July 1, 2021 and expiring on June 30, 2026. The Charter’s four school sites: Primary Academy, Junior Academy, Liberty Academy, and Liberty Charter High School, operate under Literacy First Charter School. During the year ended June 30, 2022, Literacy First Charter School served grades K to 12. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

In May 2010, articles of organization were filed to establish a limited liability corporation under Literacy First Charter School Issuer, LLC, whereby Literacy First Charter Schools is the sole statutory member of the LLC. As such, the LLC is deemed a disregarded entity and its financial statements are consolidated with Literacy First Charter Schools.

B. Basis of Accounting

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

C. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Literacy First Charter Schools and Literacy First Charter School Issuer LLC, which comprise the Organization as a whole. Intercompany accounts and transactions have been eliminated in consolidation.

D. Estimates

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

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018. Under the Guide, Literacy First Charter Schools is required to report information regarding its financial position and activities according to two classes of net assets:

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

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

As a public charter school, the Organization also accounts for the Charter’s financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is not used in the Organization’s financial statement presentation.

F. Contributions

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

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

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

G. Functional Expenses

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

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Lieu of Property Tax Revenue

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

I. Cash and Cash Equivalents

Literacy First Charter Schools considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

J. Investments

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

K. Receivables and Allowances

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

L. Capital Assets

Literacy First Charter Schools has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

M. Deferred Revenue

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements

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

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

O. Income Taxes

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

Literacy First Charter Schools Issuer LLC has not elected to be treated as a corporation; therefore, as the Organization's single-member LLC, the LLC is a "disregarded entity" and the LLC's activities are reflected in the Organization's federal tax return. The LLC is not yet exempt from state franchise or income tax under Section 23701(h) of the CRTC.

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

P. New Accounting Pronouncement

Leases

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

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalent, as of June 30, 2022, consists of the following:

	Literacy First Charter School	Literacy First Charter School Issuer, LLC	Consolidated Total
Cash in county treasury	\$ 10,658,961	\$ -	\$ 10,658,961
Cash in county treasury, FMV adjustment	(263,365)	-	(263,365)
Cash in banks, non-interest bearing	-	61,050	61,050
Cash in banks, interest bearing	196,339	-	196,339
Cash with fiscal agents	750,000	863,376	1,613,376
Total Cash and Cash Equivalents	\$ 11,341,935	\$ 924,426	\$ 12,266,361

Cash in Banks

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. Literacy First Charter Schools does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2022, Literacy First Charter Schools' bank balance was not exposed to custodial credit risk as there were no deposits over \$250,000 in accounts at any one insured bank.

Cash with Fiscal Agents

The Organization maintains \$863,376 of its cash with US Bank in money market investment funds and \$750,000 in a surety bond. The surety bond is expected to be returned during the fiscal year ending June 30, 2023. Cash with fiscal agents is carried at amortized cost on behalf of the Organization. These types of investments do not qualify as securities as defined in FASB ASB 320, Investments – Debt and Equity Securities, thus the fair value disclosures required by ASC 820, Fair Value Measurements and Disclosures, are not provided.

Cash in County Treasury

Policies and Practices

Literacy First Charter School is a voluntary participant in an external investment pool. The fair value of the Charter's investment in the pool is reported in the financial statements at amounts based upon the Charter's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in the market interest rates. The Organization has managed its exposure to interest rate risk by investing in the county treasury. The Charter's investments in the San Diego County Treasury Investment Pool, which combines the Charter's share of the portfolio, has a combined fair value of \$10,395,596 which is equal to the adjusted book value as of June 30, 2022. The average weighted maturity for this pool is 551 days.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in County Treasury (continued)

Fair Value Measurement

Cash in county treasury is measured at Level 1 using the fair value input levels noted in Note 1N. The funds were not previously measured. The Charter has reclassified these funds as Level 1 because the amounts invested in the county treasury pooled investment fund primarily consist of investment types having observable inputs that reflect quoted prices. The investment types include those noted under the general authorizations section. As such, the carrying value consists of the amortized book value presented as “cash in county treasury” offset by the “county treasury fair value adjustment” to arrive at the combined fair value amount noted under the interest rate risk section.

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest Charter funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the California Government Code:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

NOTE 3 – ACCOUNTS RECEIVABLE

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

	Literacy First Charter School
Federal sources	\$ 1,154,480
State sources	467,352
In lieu property tax payments	182,820
Other local sources	18,331
Total Accounts Receivable	\$ 1,822,983

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 4 – PREPAID EXPENSES

Total prepaid expenses as of June 30, 2022, consists of the following:

	Literacy First Charter School
Lease payments	\$ 138,938
Other vendor payments	550,616
Total Prepaid Expenses	\$ 689,554

NOTE 5 – CAPITAL ASSETS

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

Literacy First Charter School	Balance July 1, 2021	Adjustments*	Additions	Disposals	Balance June 30, 2022
Property and equipment					
Land	\$ 5,279,055	\$ (76,091)	\$ -	\$ -	\$ 5,202,964
Construction in progress	2,000,715	-	409,069	-	2,409,784
Land improvements	-	76,091	73,601	-	149,692
Buildings and improvements	-	2,624,410	647,590	-	3,272,000
Furniture and equipment	1,002,232	-	189,501	-	1,191,733
Total property and equipment	8,282,002	2,624,410	1,319,761	-	12,226,173
Less accumulated depreciation	(621,782)	(812,780)	(228,493)	-	(1,663,055)
Capital Assets, net	\$ 7,660,220	\$ 1,811,630	\$ 1,091,268	\$ -	\$ 10,563,118

Literacy First Charter School Issuer, LLC	Balance July 1, 2021	Adjustments*	Additions	Disposals	Balance June 30, 2022
Property and equipment					
Buildings and improvements	\$ 13,526,313	\$ (2,624,410)	\$ -	\$ -	\$ 10,901,903
Total property and equipment	13,526,313	(2,624,410)	-	-	10,901,903
Less accumulated depreciation	(2,966,540)	812,780	(363,397)	-	(2,517,157)
Capital Assets, net	\$ 10,559,773	\$ (1,811,630)	\$ (363,397)	\$ -	\$ 8,384,746

*Adjustments were made to transfer assets at book value. See Note 14 for additional information.

NOTE 6 – ACCOUNTS PAYABLE

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

	Literacy First Charter School
Due to grantor government	\$ 1,897,025
Compensated absences	185,658
Salaries and benefits	174,155
Other vendor payables	167,694
Credit card liability	72,639
Total Accounts Payable	\$ 2,497,171

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 7 – DEFERRED REVENUE

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

	Literacy First Charter School
Federal sources	\$ 464,669
State sources	1,350,872
Total Deferred Revenue	\$ 1,815,541

NOTE 8 – DEFERRED RENT

Literacy First Charter Schools held a deferred rent liability of \$122,611 as of June 30, 2022. The deferred rent liability is associated with the land lease agreement disclosed in Note 13 (operating leases). In accordance with generally accepted accounting principles, multi-year lease agreements with varying lease payments should be expensed using a straight-line basis over the life of the lease. Consequently, lease expense attributed to the lease agreement was \$61,628, which differs from actual lease payments made of \$66,833 for the year ended June 30, 2022. Future minimum lease payments, lease expense, and the difference between these amounts are as follows:

Fiscal Year Ending June 30,	Lease Payments	Lease Expense	Prepaid/ (Deferred)
2023	\$ 80,199	\$ 74,370	\$ (5,829)
2024	86,883	74,370	(12,513)
2025	86,883	74,370	(12,513)
2026	86,883	74,370	(12,513)
2027	86,883	74,370	(12,513)
Thereafter	463,372	396,642	(66,730)
Total	\$ 891,103	\$ 768,492	\$ (122,611)

NOTE 9 – BONDS PAYABLE

A summary of bonded debt is as follows:

	Issuance Date	Maturity Date	Interest Rate	Original Issue
Series 2019A	10/31/2019	11/25/2049	5.00%	\$ 7,450,000
Series 2019B	10/31/2019	11/25/2030	4.75%	\$ 3,180,000

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

	Balance July 1, 2021	Adjustments	Increases	Decreases	Balance June 30, 2022
Series 2019A & B bonds	\$ 10,430,000	\$ (122,501)	\$ -	\$ 215,833	\$ 10,091,666
Unamortized premium	1,244,783	(69,155)	-	41,493	1,134,135
Bonds cost of issuance	(520,226)	27,792	39,811	-	(452,623)
Bonds Payable, net	\$ 11,154,557	\$ (163,864)	\$ 39,811	\$ 257,326	\$ 10,773,178

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 9 – BONDS PAYABLE (continued)

Future minimum payments associated with debt service obligations on the bonds payable is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 225,833	\$ 497,979	\$ 723,812
2024	235,833	487,252	723,085
2025	248,750	476,050	724,800
2026	260,833	464,234	725,067
2027	273,750	451,845	725,595
Thereafter	8,846,667	5,862,721	14,709,388
Total	\$ 10,091,666	\$ 8,240,081	\$ 18,331,747

In October 2019, Literacy First Charter School Issuer, LLC entered into a loan agreement with CMFA for the issuance of \$7,450,000 Education Revenue Bonds, Series A and \$3,180,000 Education Revenue Bonds, Series B. The funds will be used acquire, construct, improve, furnish, and equip the school facilities at the Bradley and Main Street locations in El Cajon, California. The Series 2019A Bonds were sold at a premium of \$1,244,783 and had issuance costs of \$167,357. The Series 2019B Bonds had issuance costs of \$376,551. Interest is payable monthly and commenced on December 2019.

In accordance with ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, debt issuance costs are to be presented in the balance sheet as a direct deduction from the carrying value of the associated liability. Additionally, the amortization of debt issuance costs is required to be reported as interest expense.

NOTE 10 – NET ASSETS

Net Assets with Donor Restrictions

As of June 30, 2022, the Organization's net assets with donor restrictions consist of the following:

	<u>Literacy First Charter School</u>
Special education: mental health services	\$ 28,427
Common core standards	204,124
Total Net Assets with Donor Restrictions	\$ 232,551

Net Assets without Donor Restrictions

Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Organization. At June 30, 2022, the Organization's net assets without donor restrictions consist of the following:

	<u>Literacy First Charter School</u>	<u>Literacy First Charter School Issuer, LLC</u>	<u>Consolidated Total</u>
Net investment in capital assets	\$ 10,563,118	\$ (2,388,432)	\$ 8,174,686
Undesignated	9,236,309	924,715	10,161,024
Total Net Assets without Donor Restrictions	\$ 19,799,427	\$ (1,463,717)	\$ 18,335,710

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

Financial assets	
Cash and cash equivalents	\$ 12,266,361
Accounts receivable	1,822,983
Prepaid expenses	689,554
Security deposits, current	25,000
Total Financial Assets, excluding noncurrent	<u>14,803,898</u>
Contractual or donor-imposed restrictions	
Cash restricted by others for specific uses	(232,551)
Cash held for conditional contributions	(1,815,541)
Cash with fiscal agent for bonded debt	<u>(1,613,376)</u>
Financial Assets available to meet cash needs	
 for expenditures within one year	<u>\$ 11,142,430</u>

NOTE 12 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers’ Retirement System (CalSTRS), and non-certificated employees are members of the California Public Employees’ Retirement System (CalPERS). Social security is provided to all employees who qualify for CalPERS as an alternative plan and to all employees who may not qualify for CalSTRS.

California State Teachers’ Retirement System (CalSTRS)

Plan Description

Literacy First Charter Schools contributes to the California State Teachers’ Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers’ Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

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

	Contribution	Percent of Required Contribution
2021-22	\$ 1,415,361	100%
2020-21	\$ 1,348,759	100%
2019-20	\$ 1,322,397	100%

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 12 – EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for Literacy First Charter Schools is estimated at \$996,416. The on-behalf payment amount is computed as the proportionate share of total 2020-21 State on-behalf contributions.

California Public Employees' Retirement System (CalPERS)

Plan Description

Literacy First Charter Schools 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, within 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.

Funding Policy

Active plan members, who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 7.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

Literacy First Charter Schools 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 for fiscal year 2021-22 was 22.91% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2021-22	\$ 538,941	100%
2020-21	\$ 431,408	100%
2019-20	\$ 344,560	100%

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Charter School Authorization

As mentioned in Note 1A, Literacy First Charter School is approved to operate as a public charter school through authorization by the San Diego County Office of Education. As such, the Charter is subject to the risk of possible non-renewal or revocation at the discretion of its authorizing agency if certain criteria for student outcomes, management, and/or fiscal solvency are not met.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

Governmental Funds

Literacy First Charter Schools has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Multiemployer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Organization's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Organization to make payments to the plan, which would approximate the Charter's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Charter's share of withdrawal liability is approximately \$5,961,543 as of June 30, 2021. Also as of June 30, 2021, CalPERS has estimated the Charter's share of withdrawal liability to be \$2,924,145. The Organization does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 12 for additional information on employee retirement plans.

Pending or Threatened Litigation

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

Operating Leases

On July 1, 2011, the Organization entered into a lease agreement to occupy space located at 799 W. Washington in El Cajon, California. The facility is utilized for instructional services in order to meet the goals established by the Charter. The lease called for a security deposit of \$4,000, which has been recorded as a noncurrent asset on the consolidated statement of financial position. The initial lease agreement covered a term beginning July 1, 2011 through June 30, 2021 with an option to extend the lease for five or ten years following the initial term. The term of the lease was extended to June 30, 2026. During the fiscal year ended June 30, 2022, the Organization paid \$19,055 in lease payments under this operating lease. Future minimum lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2023	\$ 19,627
2024	20,216
2025	20,822
2026	21,447
Total	<u>\$ 82,112</u>

In September 2010, the Organization entered into a land lease agreement for property located at 698 W. Main Street in El Cajon, California. The agreement covers a term beginning September 1, 2010 through October 31, 2032. Monthly lease payments fluctuate throughout the life of the lease. Lease payments and the recognized lease expense are disclosed in Note 8.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 14 – RESTATEMENT OF NET ASSETS

The amounts previously reported at June 30, 2021 as the ending net assets have been restated as follows:

	Literacy First Charter School (Without donor restrictions)	Literacy First Charter School (With donor restrictions)	Literacy First Charter School Issuer, LLC	Total
Net assets - beginning, as previously stated	\$ 15,995,036	\$ 618,097	\$ 380,008	\$ 16,993,141
Adjust capital asset allocation	1,811,630	-	(1,811,630)	-
Adjust prior year conditional contribution recognized as revenue	(86,292)	(618,097)	-	(704,389)
Record the deferred rent liability	(115,073)	-	-	(115,073)
Total adjustments	1,610,265	(618,097)	(1,811,630)	(819,462)
Net assets - beginning, as restated	\$ 17,605,301	\$ -	\$ (1,431,622)	\$ 16,173,679

NOTE 15 – DONATED GOODS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Literacy First Charter Schools in an effort to advance the Charter's programs and objectives. These services have not been recorded in the Organization's financial statements because they do not meet the criteria required by generally accepted accounting principles. The Organization did not receive any noncash donations during the year.

NOTE 16 – RELATED PARTY TRANSACTIONS

The Patriot Legacy Foundation

The Patriot Legacy Foundation (the "Foundation") is a separate 501(c)(3) public charity that was established as a supporting organization of Literacy First Charter Schools. During the year ended June 30, 2022, the Foundation contributed \$75,000 to the Organization.

Authorizing Agency

The Charter makes payments to the authorizing agency, San Diego County Office of Education, to provide required oversight services. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. Total fees for oversight and facility use amounted to \$185,658 for the fiscal year ending June 30, 2022.

Literacy First Charter School Issuer, LLC

As mentioned in Note 1A, Literacy First Charter Schools is the sole statutory member of Literacy First Charter School Issuer, LLC. The entities are considered financially interrelated under generally accepted accounting principles because of the statutory relationship. As such, interagency transactions and balances are eliminated in the consolidated financial statements of the Organization to better reflect the true activities of the corporation. Transactions during the fiscal year that were eliminated included lease payments recorded as a lease expense to the Charter and rental income to the LLC. Additional information concerning the leased property is noted below.

Leased Property

On November 1, 2019, the Charter entered into a lease agreement with the LLC for use of facilities located at 698 W. Main Street in El Cajon, California. The agreement provides for varying monthly payments beginning December 25, 2019 and ending November 25, 2049. Future minimum lease payments under the agreement are equal to the Series A and Series B principal and interest payments as disclosed in Note 9.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2022

NOTE 17 – SUBSEQUENT EVENTS

Literacy First Charter Schools has evaluated subsequent events for the period from June 30, 2022 through November 21, 2022, the date the financial statements were available to be issued.

The Organization has entered into a lease agreement effective July 1, 2022 to occupy space located at 1850 Alpine Boulevard in Alpine, California. The agreement covers a term beginning July 1, 2022 through June 30, 2027 and includes three options to extend the lease in five year increments. The agreement calls for monthly payments of \$42,000 beginning July 1, 2022 with annual increases of 2.5 percent.

In August 2022, articles of incorporation were filed to establish a limited liability corporation under 698 West Main Street, LLC, whereby Literacy First Charter Schools is the sole statutory member of the LLC. Property located at 698 West Main Street was purchased on September 20, 2022. As of June 30, 2022, a \$10,000 down payment had been made on the property and recorded as a prepaid asset on the consolidated financial statements.

Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

LITERACY FIRST CHARTER SCHOOLS
LEA ORGANIZATION STRUCTURE
JUNE 30, 2022

Literacy First Charter Schools, located in San Diego County, was formed as a nonprofit public benefit corporation on November 30, 2000. The charter school operated by the nonprofit, Literacy First Charter School, was numbered by the State Board of Education as Charter No. 0405. The Charter is authorized to operate as a charter school through the San Diego County Office of Education. During 2021-22, the Charter served approximately 1,945 students in grades K to 12.

BOARD OF TRUSTEES		
Name	Office	Term Expiration
Priscilla Schreiber	President	2023
Lucy Razooky	Secretary	2023
Katina Evans	Member	2024
Jason Lewis	Member	2025
ADMINISTRATION		

Debbie Beyer
Executive Director

Steve Robinson
Financial Officer

See accompanying note to supplementary information.

LITERACY FIRST CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass- Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 171,863
COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants [1]:			
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425	15547	974,278
Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	15,897
Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425	15618	159,354
Expanded Learning Opportunities (ELO) Grant GEER II	84.425	15619	16,553
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425	15621	26,360
Subtotal Education Stabilization Fund Discretionary Grants			<u>1,192,442</u>
<i>Passed through El Dorado SELPA:</i>			
Special Education Cluster			
ARP IDEA Part B, Sec 611, Local Assistance Entitlement	84.027	*	73,876
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	*	259,955
Subtotal Special Education Cluster			<u>333,831</u>
Total U. S. Department of Education			<u>1,698,136</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Pandemic EBT Local Administrative Grant	10.649	15644	3,063
Total U. S. Department of Agriculture			<u>3,063</u>
Total Federal Expenditures			<u>\$ 1,701,199</u>

[1] - Major Program

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

See accompanying note to supplementary information.

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

California Charter No.	0405	Literacy First		
	Literacy First	Charter School		Consolidated
	Charter School	Issuer LLC	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 11,341,935	924,426	\$ -	\$ 12,266,361
Accounts receivable	1,822,983	-	-	1,822,983
Prepaid expenses	689,554	-	-	689,554
Due from related entity	-	289	(289)	-
Security deposits, current	25,000	-	-	25,000
Total current assets	13,879,472	924,715	(289)	14,803,898
Noncurrent assets				
Security deposits, noncurrent	25,000	-	-	25,000
Capital assets, net	10,563,118	8,384,746	-	18,947,864
Total noncurrent assets	10,588,118	8,384,746	-	18,972,864
Total Assets	\$ 24,467,590	\$ 9,309,461	\$ (289)	\$ 33,776,762
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 2,497,171	\$ -	\$ -	\$ 2,497,171
Deferred revenue	1,815,541	-	-	1,815,541
Due to related entity	289	-	(289)	-
Deferred rent	122,611	-	-	122,611
Bonds payable, current portion	-	225,833	-	225,833
Total current liabilities	4,435,612	225,833	(289)	4,661,156
Long-term Liabilities				
Bonds payable, net	-	10,547,345	-	10,547,345
Total long-term liabilities	-	10,547,345	-	10,547,345
Total liabilities	4,435,612	10,773,178	(289)	15,208,501
Net assets				
Without donor restrictions	19,799,427	(1,463,717)	-	18,335,710
With donor restrictions	232,551	-	-	232,551
Total net assets	20,031,978	(1,463,717)	-	18,568,261
Total Liabilities and Net Assets	\$ 24,467,590	\$ 9,309,461	\$ (289)	\$ 33,776,762

See accompanying note to supplementary information.

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	California Charter No. 0405			Literacy First Charter School Issuer, LLC	Eliminations	Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Total			
SUPPORT AND REVENUES						
Federal and state support and revenues						
Local control funding formula, state aid	\$ 14,392,548	\$ -	\$ 14,392,548	\$ -	\$ -	\$ 14,392,548
Federal revenues	1,701,199	-	1,701,199	-	-	1,701,199
Other state revenues	3,020,394	232,551	3,252,945	-	-	3,252,945
Total federal and state support and revenues	19,114,141	232,551	19,346,692	-	-	19,346,692
Local support and revenues						
Payments in lieu of property taxes	4,035,794	-	4,035,794	-	-	4,035,794
Investment income (loss), net	(218,867)	-	(218,867)	(50,187)	-	(269,054)
Rental income	-	-	-	845,142	(629,199)	215,943
Other local revenues	1,942,447	-	1,942,447	-	-	1,942,447
Total local support and revenues	5,759,374	-	5,759,374	794,955	(629,199)	5,925,130
Total Support and Revenues	24,873,515	232,551	25,106,066	794,955	(629,199)	25,271,822
EXPENSES						
Program services	18,560,704	-	18,560,704	744,345	(566,279)	18,738,770
Management and general	4,118,685	-	4,118,685	82,705	(62,920)	4,138,470
Total Expenses	22,679,389	-	22,679,389	827,050	(629,199)	22,877,240
CHANGE IN NET ASSETS	2,194,126	232,551	2,426,677	(32,095)	-	2,394,582
Net Assets - Beginning, as restated	17,605,301	-	17,605,301	(1,431,622)	-	16,173,679
Net Assets - Ending	\$ 19,799,427	\$ 232,551	\$ 20,031,978	\$ (1,463,717)	\$ -	\$ 18,568,261

See accompanying note to supplementary information.

LITERACY FIRST CHARTER SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2022

		Classroom-Based	
		Second Period	
		Report	Annual Report
Grade Span			
Kindergarten through third		629.76	631.18
Fourth through sixth		453.95	454.93
Seventh through eighth		248.80	248.47
Ninth through twelfth		327.98	324.77
Total Average Daily Attendance - Classroom-Based		1,660.49	1,659.35
		Nonclassroom-Based	
		Second Period Report	Annual Report
		After Audit Finding	After Audit Finding
		Adjustments	Adjustments
Grade Span			
Kindergarten through third		107.85	106.89
Fourth through sixth		62.32	63.05
Seventh through eighth		17.17	17.67
Total Average Daily Attendance - Nonclassroom-Based		187.34	189.64

See accompanying note to supplementary information.

**LITERACY FIRST CHARTER SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2022**

Grade Span	Minutes Requirement	2021-22 Instructional Minutes	2021-22 Number of Days	Status
Kindergarten	36,000	36,050	175	Complied
Grades 1 through 3	50,400	59,850	175	Complied
Grades 4 through 8	54,000	59,850	175	Complied
Grades 9 through 12	64,800	65,275	175	Complied

See accompanying note to supplementary information.

LITERACY FIRST CHARTER SCHOOLS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2022

June 30, 2022, fund balance/net position on the Financial Report - Alternative Form (Charter School Unaudited Actuals)	<u>\$ 19,859,048</u>
Adjustments:	
Increase (decrease) in total net assets:	
Beginning balance restatement	992,168
Record depreciation expense	(228,493)
Record the fair market value adjustment to cash in county treasury	(263,365)
Reclass conditional contribution sources as deferred revenue	(674,414)
Record the current year deferred rent liability adjustment	(7,538)
Recognize revenue	<u>354,572</u>
Net adjustments	<u>172,930</u>
June 30, 2022, net assets per audited financial statements*	<u>\$ 20,031,978</u>

*Reconciliation is for Literacy First Charter School and does not include Literacy First Charter School Issuer, LLC.

LITERACY FIRST CHARTER SCHOOLS
NOTE TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 – PURPOSE OF SCHEDULES

A. LEA Organization Structure

This schedule provides information about the local education agency (LEA or charter school), including the Charter's authorizing agency, grades served, members of the governing body, and members of the administration.

B. Schedule of Expenditures of Federal Awards

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

C. Consolidating Financial Statements

The consolidating financial statements, which include the consolidating statements of financial position and activities, provide information supporting the amounts for each reporting unit and/or entity, as well as eliminations, incorporated in Literacy First Charter Schools' consolidated financial statements.

D. Schedule of Average Daily Attendance

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

E. Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered per grade level by the Literacy First Charter School and whether the Charter complied with the provisions of *Education Code Section 47612.5*.

F. Reconciliation of Financial Report – Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets on the audited financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS



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

Independent Auditors' Report

To the Board of Directors of
Literacy First Charter Schools
El Cajon, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Literacy First Charter Schools (the "Organization") as of and for the year ended June 30, 2022, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 21, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Literacy First Charter Schools' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Literacy First Charter Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs as the corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink that reads "Christy White, Inc.".

San Diego, California
November 21, 2022



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

Independent Auditors' Report

To the Board of Directors of
Literacy First Charter Schools
El Cajon, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

Report on Internal Control Over Compliance (continued)

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

Christy White, Inc.

San Diego, California
November 21, 2022



REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Directors of
Literacy First Charter Schools
El Cajon, California

Report on State Compliance

Opinion on State Compliance

We have audited Literacy First Charter Schools' compliance with the types of compliance requirements described in the *2021-22 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Literacy First Charter Schools' state programs for the fiscal year ended June 30, 2022, as identified below.

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

Basis for Opinion on State Compliance

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2021-22 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810 as regulations (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit for State Compliance

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

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

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

Description	Procedures Performed
School Districts, County Offices of Education and Charter Schools	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Not applicable
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	Not applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Not applicable
In Person Instruction Grant	Yes
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

The term “Not Applicable” is used above to mean either the Charter did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the K-12 Audit Guide and which are described in the accompanying schedule of findings and questioned costs as Finding 2022-002. Our opinion on state compliance is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Literacy First Charter Schools' response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs as the corrective action plan. Literacy First Charter Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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



San Diego, California
November 21, 2022

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LITERACY FIRST CHARTER SCHOOLS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2022**

Financial Statements

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

Federal Awards

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

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

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

State Awards

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

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

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**LITERACY FIRST CHARTER SCHOOLS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

FINDING 2022-001: FINANCIAL STATEMENT REPORTING (30000)

Criteria: Financial controls for best business practices should include reconciliation and review of all balance sheet accounts, and proper monitoring and oversight related to these functions. It is management's responsibility to ensure financial statements are compliant with generally accepted accounting principles (GAAP) applicable to nonprofit organizations, including principles of consolidation and implementation of new accounting standards. The new accounting pronouncement issued by FASB, ASU No. 2016-02, Leases (Topic 842) is applicable to any entity that enters into a lease. For not-for-profit entities that have issued or are conduit bond obligors for securities traded, listed or quoted on an exchange or an over-the-counter market, the new lease standard is effective in the fiscal year beginning after December 15, 2020 (or in the 2020-21 fiscal year for entities with a June 30 year-end).

Condition: Audit adjustments were necessary to properly report cash with fiscal agent, capital assets, deferred revenue, deferred rent, beginning net assets, and bonded debt. The Organization may potentially have unrecorded balances relating to the new FASB standard on leases, which include a right-of-use asset and related lease liability for all lease agreements, if implementation is deemed necessary for the 2021-22 fiscal year.

Cause: Review and reconciliation of balance sheet accounts were not completed.

Effect: The financial statements were not correct as reported by management. Several audit adjustments were necessary to adequately report the consolidated financial statements. The Organization may not have financial statements compliant with GAAP with regards to consolidated financial statements with all related entities.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that account balances are reconciled at year-end. This may include maintaining supplemental schedules for bonded debt issuances and related repayment schedule, listing of capital assets and related depreciation, bank statements for funds held with a fiscal agent, etc. Management should also review the new FASB lease standard, consult with its bond counsel, and consider whether implementation is required prior to the 2022-23 fiscal year given its possible consideration as a "conduit bond obligor."

Corrective Action Plan: The main causes of this finding relate to the audit adjustments pertaining to the accounting of revenue that is carried over year to year and to reconciling the books between the school and its LLC. The Literacy First Charter Schools Chief Business Officer and Accounting Manager will review the recent FASB regulations related to federal and state revenue that is carried over year to year to ensure we account for that carry over revenue correctly and will review our accounting plan for this revenue with our auditors prior to the close of fiscal year 2022-23. During the 2021-22 audit, Literacy First Charter School's Chief Business Officer and Accounting Manager worked closely with their current auditors to complete the reconciliation of the books between the school and its LLC that began under the school's previous auditor. This process has been completed with the 2021-22 audit and further audit adjustments of this nature are not expected.

**LITERACY FIRST CHARTER SCHOOLS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

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

**LITERACY FIRST CHARTER SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

FINDING 2022-002: NONCLASSROOM-BASED INSTRUCTION/INDEPENDENT STUDY (60000)

Criteria: Charter schools may only claim average daily attendance for pupils who are residents of the county in which the apportionment claim is reported, or who are residents of a county immediately adjacent to the county in which the apportionment claim is report as stated by California Education Code 51747.3(b).

Condition: One out of twenty students tested for Nonclassroom-based Instruction/Independent Study did not live in San Diego County or in an immediately adjacent county.

Effect: The Charter is not in compliance with State requirements.

Cause: Clerical oversight.

ADA Impact: At the P2 reporting period, ADA was overstated by 0.96.

Questioned Cost: \$9,722 based on the below calculation:

	P2 ADA (Overstatement)	2021-22 Derived Value of ADA by Grade Span	Questioned Cost
Grade TK/K-3	(0.96)	\$ 10,127	\$ (9,722)

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the Charter review independent study agreements and student information to ensure all students live within San Diego County or in an immediately adjacent county.

Corrective Action Plan: The enrollment causing this finding was with Literacy First Charter Schools' Freedom Academy home school program. To ensure this program does not enroll a future student who resides outside of San Diego County, the Freedom Academy Office Manager will analyze all applications for compliance with the residency requirements. Once the Office Manager determines an application is valid, he/she will submit the application to the lead administrator of the Freedom Academy program for further review and quality control, specifically in relation to the residency requirement. Prior to the enrollment at the heart of this finding, the lead administrator was the only Freedom Academy personnel who checked applications for compliant zip codes. There are now two personnel specifically monitoring such compliance. These procedures were put in place in the spring of 2022 upon learning of the errant enrollment and remain in place.

**LITERACY FIRST CHARTER SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

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