

Literacy
First
Charter
Schools



"The tree of knowledge begins with literacy."

LITERACY FIRST CHARTER SCHOOLS

**CONSOLIDATED
AUDIT REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2024**

**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
698 West Main Street, LLC

**LITERACY FIRST CHARTER SCHOOLS
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JUNE 30, 2024**

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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 which comprise the consolidated statement of financial position as of June 30, 2024, 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, 2024, 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.

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

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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment 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 judgment 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 judgment, 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the Local Education Agency Organization Structure but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2024, 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 Literacy First Charter Schools' 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 25, 2024

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS

Current assets	
Cash and cash equivalents	\$ 17,041,712
Investments	2,101,751
Accounts receivable	2,026,098
Prepaid expenses	691,902
Total current assets	<u>21,861,463</u>
Noncurrent assets	
Right-of-use asset	2,296,378
Capital assets, net	16,836,554
Total noncurrent assets	<u>19,132,932</u>
Total Assets	<u>\$ 40,994,395</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 4,952,756
Deferred revenue	69,071
Bonds payable, current portion	240,000
Total current liabilities	<u>5,261,827</u>
Noncurrent liabilities	
Operating lease liability	2,397,940
Bonds payable, net, less current portion	10,208,148
Total noncurrent liabilities	<u>12,606,088</u>
Total liabilities	<u>17,867,915</u>
Net assets	
Without donor restrictions	23,126,480
Total net assets	<u>23,126,480</u>
Total Liabilities and Net Assets	<u>\$ 40,994,395</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, 2024**

	<u>Without Donor Restrictions</u>
SUPPORT AND REVENUES	
Federal and state support and revenues	
Local control funding formula, state aid	\$ 19,307,795
Federal revenues	2,623,893
Other state revenues	<u>5,005,426</u>
Total federal and state support and revenues	<u>26,937,114</u>
Local support and revenues	
Payments in lieu of property taxes	5,070,794
Investment income, net	663,546
Other local revenues	<u>600,889</u>
Total local support and revenues	<u>6,335,229</u>
Total Support and Revenues	<u>33,272,343</u>
 EXPENSES	
Program services	22,182,773
Management and general	<u>7,217,522</u>
Total Expenses	<u>29,400,295</u>
 CHANGE IN NET ASSETS	 3,872,048
 Net Assets - Beginning	 <u>19,254,432</u>
 Net Assets - Ending	 <u>\$ 23,126,480</u>

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, 2024**

	Program Services	Management and General	Eliminations	Total
EXPENSES				
Personnel expenses				
Certificated salaries	\$ 10,265,193	\$ 1,820,217	\$ -	\$ 12,085,410
Non-certificated salaries	2,012,677	1,645,222	-	3,657,899
Pension plan contributions	2,921,708	793,982	-	3,715,690
Payroll taxes	552,360	221,967	-	774,327
Other employee benefits	956,300	235,667	-	1,191,967
Total personnel expenses	16,708,238	4,717,055	-	21,425,293
Non-personnel expenses				
Books and supplies	1,185,662	262,720	-	1,448,382
Insurance	380	264,284	-	264,664
Facilities	1,793,802	748,045	(1,052,685)	1,489,162
Professional services	2,099,593	494,981	-	2,594,574
Interest expense	484,619	1,862	-	486,481
Depreciation	363,398	338,408	-	701,806
Fees to authorizing agency	-	244,047	-	244,047
Other operating expenses	599,766	146,120	-	745,886
Total non-personnel expenses	6,527,220	2,500,467	(1,052,685)	7,975,002
Eliminations	(1,052,685)	-	1,052,685	-
Total Expenses	\$ 22,182,773	\$ 7,217,522	\$ -	\$ 29,400,295

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, 2024**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 3,872,048
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Noncash items	
Depreciation	701,806
Interest expense for amortization of debt issuance costs	(1,682)
Lease expense for amortization of right-of-use asset	16,765
(Increase) decrease in operating assets	
Accounts receivable	(197,434)
Prepaid expenses	(445,863)
Prepaid rent within right-of-use asset	(44,126)
Increase (decrease) in operating liabilities	
Accounts payable	3,445,720
Deferred revenue	(3,168,208)
Net cash provided by (used in) operating activities	<u>4,179,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Reinvestment of dividends	(87,556)
Purchase of capital assets	(1,017,810)
Net cash provided by (used in) investing activities	<u>(1,105,366)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on bonded debt	(230,000)
Net cash provided by (used in) financing activities	<u>(230,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,843,660
Cash and cash equivalents - Beginning	<u>14,198,052</u>
Cash and cash equivalents - Ending	<u>\$ 17,041,712</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 484,799</u>

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, 2024**

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 public 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 five-year term beginning July 1, 2021, and expiring on June 30, 2026. As a result of SB 114, the charter petition end date is extended to June 30, 2027. The Charter’s four school sites: Primary Academy, Junior Academy, Liberty Academy, and Liberty Charter High School, operate under Literacy First Charter School. The Charter also operates the Freedom Academy that provides a home-school program. During the year ended June 30, 2024, 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. 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 also the sole statutory member of this LLC. The LLCs are deemed disregarded entities and their 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. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Literacy First Charter Schools reports 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.

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.

**LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Literacy First Charter Schools, Literacy First Charter School Issuer LLC, and 698 West Main Street LLC, which comprise the Organization as a whole. Intercompany accounts and transactions have been eliminated in consolidation.

E. 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.

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. In 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.

H. 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.

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.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2024, 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.

N. Lease Arrangements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, a new lease standard effective no later than the fiscal year 2022-23. Under FASB ASC 842, a right-of-use asset and a related lease liability must be recorded on the statement of financial position (balance sheet) for proper recognition of any operating lease. A right-of-use asset is an intangible asset that pertains to the lessee's right to occupy, operate, and hold a leased asset during the agreed rental period. A lease liability is the financial obligation for the payments required by the lease, discounted to present value.

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 and 698 West Main Street LLC have not elected to be treated as corporations; therefore, as the Organization's single-member LLCs, the LLCs are each a "disregarded entity" and the LLCs' activities are reflected in the Organization's federal tax return. The LLCs are not yet exempt from state franchise or income tax under Section 23701(h) of the CRTC.

**LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Income Taxes (continued)

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. 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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as of June 30, 2024, consists of the following:

	Literacy First Charter School	Literacy First Charter School Issuer LLC	698 West Main Street LLC
Cash in county treasury	\$ 15,060,795	\$ -	\$ -
County treasury fair value adjustment	(227,036)	-	-
Cash in banks, non-interest bearing	-	61,000	8,729
Cash in banks, interest bearing	454,525	-	-
Cash with fiscal agents	750,000	933,699	-
Total Cash and Cash Equivalents	\$ 16,038,284	\$ 994,699	\$ 8,729

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, 2024, \$204,525 of Literacy First Charter Schools’ bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held at one or more banks.

Cash with Fiscal Agents

The Organization maintains \$933,699 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, 2025. 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 820, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820 are not provided.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

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.

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

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 \$14,833,759 which is equal to the adjusted book value as of June 30, 2024. The average weighted maturity for this pool is 449 days.

Fair Value Measurement

Cash in county treasury is measured at Level 1 using the fair value input levels noted in Note 1P. The Charter has classified these funds as Level 1 because the amounts invested in the county treasury pooled investment fund primarily consist of investments 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”.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 3 – INVESTMENTS

The Organization holds certificates of deposit, which are carried at amortized cost and classified as an investment under current assets in the statement of financial position. This investment does not qualify as securities defined in FASB ASC 820, *Investments – Debt and Equity Securities*, thus the fair value disclosure required by ASC 820 are not provided. As of June 30, 2024, the carrying value of the certificates of deposit is \$2,101,751.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2024, consists of the following:

Federal sources	\$ 523,522
Other state sources (not LCFF)	1,294,052
In lieu property tax payments	971
Other local sources	207,553
Total Accounts Receivable	\$ 2,026,098

NOTE 5 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2024 consists of the following:

	July 1, 2023	Additions	Disposals	June 30, 2024
Literacy First Charter School				
Property and equipment				
Land	\$ 349,919	\$ -	\$ -	\$ 349,919
Buildings and improvements	3,939,732	414,509	-	4,354,241
Land improvements	228,285	63,712	-	291,997
Furniture and equipment	1,261,894	83,691	-	1,345,585
Construction in progress	-	455,898	-	455,898
Total property and equipment	5,779,830	1,017,810	-	6,797,640
Less accumulated depreciation	(1,936,570)	(338,409)	-	(2,274,979)
Capital Assets, net	\$ 3,843,260	\$ 679,401	\$ -	\$ 4,522,661
Literacy First Charter School Issuer, LLC				
Property and equipment				
Buildings and improvements	\$ 10,901,903	\$ -	\$ -	\$ 10,901,903
Less accumulated depreciation	(2,880,554)	(363,397)	-	(3,243,951)
Capital Assets, net	\$ 8,021,349	\$ (363,397)	\$ -	\$ 7,657,952
698 West Main Street LLC				
Property and equipment				
Land	\$ 4,655,941	\$ -	\$ -	\$ 4,655,941
Capital Assets, net	\$ 4,655,941	\$ -	\$ -	\$ 4,655,941
Consolidated Capital Assets, net	\$ 16,520,550	\$ 316,004	\$ -	\$ 16,836,554

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30, 2024, consists of the following:

Federal sources	\$ 51,861
State sources	16,410
Local sources	800
Total Deferred Revenue	\$ 69,071

NOTE 7 – OPERATING LEASES

The Organization holds various multi-year lease agreements for the use of facilities and copier machines. At June 30, 2024, the Organization recognized a combined right-of-use asset of \$2,296,378 and an operating lease liability of \$2,397,940 for the long-term lease agreements with third parties.

The following table shows the operating lease liability as the actual lease payments less the net present value adjustment and the right-of-use asset as the lease expense over the straight-line basis reduced by the net present value adjustment and prepaid rent. The Organization has accounted for its lease agreements using an incremental borrowing rate of 4.91% (discount rate). The associated assets and liabilities are amortized as follows as separated by facilities and copier equipment:

Fiscal Year Ending June 30,	Facilities		Copier Equipment	
	Lease Payments	Lease Expense	Lease Payments	Lease Expense
2025	\$ 903,662	\$ 855,364	\$ 91,695	\$ 91,695
2026	895,364	824,458	56,181	56,181
2027	556,322	529,838	27,931	27,931
Total lease payments	2,355,348	2,209,660	175,807	175,807
NPV adjustment	(124,362)	(124,362)	(8,853)	(8,853)
Operating Lease Liability	\$ 2,230,986		\$ 166,954	
Prepaid rent		44,126		-
Right-of-Use Asset		\$ 2,129,424		\$ 166,954

NOTE 8 – BONDS PAYABLE

In October 2019, Literacy First Charter School Issuer, LLC entered into a loan agreement with the California Municipal Finance Authority (CMFA) for the issuance of \$7,450,000 Education Revenue Bonds, Series A and \$3,180,000 Education Revenue Bonds, Series B. The funds were used to 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 in 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.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 8 – BONDS PAYABLE (continued)

A summary of bonded debt is as follows:

<u>Education Revenue Bonds</u>	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, 2024 consists of the following:

	July 1, 2023	Increases	Decreases	June 30, 2024
Series 2019A and B bonds	\$ 10,000,000	\$ -	\$ 230,000	\$ 9,770,000
Unamortized premium	1,092,642	-	41,493	1,051,149
Cost of issuance	(412,812)	39,811	-	(373,001)
Bonds Payable, Net	\$ 10,679,830	\$ 39,811	\$ 271,493	\$ 10,448,148

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

<u>Fiscal Year Ending June 30,</u>	Principal	Interest	Total
2025	\$ 240,000	\$ 477,000	\$ 717,000
2026	255,000	465,244	720,244
2027	265,000	452,894	717,894
2028	280,000	439,950	719,950
2029	295,000	426,294	721,294
Thereafter	8,435,000	5,033,694	13,468,694
Total	\$ 9,770,000	\$ 7,295,076	\$ 17,065,076

NOTE 9 – NET ASSETS

As of June 30, 2024, the Organization did not hold any net assets with 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, 2024, the Organization’s net assets without donor restrictions consists of the following:

Net investment in capital assets	\$ 6,388,406
Undesignated	16,738,074
Total Net Assets without Donor Restrictions	\$ 23,126,480

NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The table on the following page reflects the Organization’s financial assets as of June 30, 2024, 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.

**LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024**

NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

Financial Assets	
Cash and cash equivalents	\$ 17,041,712
Investments, at cost	2,000,000
Accounts receivable	2,026,098
Prepaid expenses	691,902
Total Financial Assets, excluding noncurrent	<u>\$ 21,759,712</u>
Contractual or donor-imposed restrictions	
Cash held for conditional contributions	(69,071)
Cash with fiscal agent for bonded debt	<u>(1,683,699)</u>
Financial Assets available to meet cash needs for expenditures within one year	<u>\$ 20,006,942</u>

NOTE 11 – 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 2023-24 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2023-24 was 19.10% 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
2023-24	\$ 1,941,296	100%
2022-23	\$ 1,716,738	100%
2021-22	\$ 1,415,361	100%

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 \$868,534. The on-behalf payment amount is computed as the proportionate share of total 2022-23 State on-behalf contributions.

**LITERACY FIRST CHARTER SCHOOLS
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
 JUNE 30, 2024**

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

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 8.0% 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 2023-24 was 26.68% 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2023-24	\$ 906,485	100%
2022-23	\$ 663,882	100%
2021-22	\$ 538,941	100%

NOTE 12 – 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.

On July 10, 2023, the Governor of California approved Senate Bill 114 (SB 114), which amended California Education Code (EC) 47607.4. The EC was amended to add “all charter schools whose term expires on or between January 1, 2024, and June 30, 2027, inclusive, shall have their term extended by one additional year.” As a result, the charter petition end date is extended to June 30, 2027.

The Charter makes payments to the authorizing agency, 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 \$244,047 for the fiscal year ending June 30, 2024.

**LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024**

NOTE 12 – 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.

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, 2024.

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 \$11,333,077 as of June 30, 2023. Also as of June 30, 2023, CalPERS has estimated the Charter's share of withdrawal liability to be \$5,722,048. The Organization does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 11 for additional information on employee retirement plans.

NOTE 13 – 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 14 – RELATED PARTY TRANSACTIONS

Patriot Legacy Education Foundation

The Patriot Legacy Education Foundation (the "Foundation") is a separate 501(c)(3) public charity that was established as a supporting organization of Literacy First Charter Schools. There were no transactions during the year ended June 30, 2024.

Limited Liability Corporations (LLCs)

As mentioned in Note 1A, Literacy First Charter Schools is the sole statutory member of Literacy First Charter School Issuer, LLC and 698 West Main Street, 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 LLCs. Additional information concerning the leased property is noted below.

698 West Main Street, LLC

The Charter made payments to this LLC for payment of facility-related fees related to the property located at 698 W. Main Street in El Cajon, California. Total revenues to the LLC from the Charter amounted to \$38,984.

LITERACY FIRST CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 14 – RELATED PARTY TRANSACTIONS (continued)

Limited Liability Corporations (LLCs) (continued)

Literacy First Charter School Issuer, LLC

On November 1, 2019, the Charter entered into a lease agreement with the LLC for use of facilities at sites located at 698 W. Main Street and 1012 East Bradley Avenue 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 directly associated with the Series A and Series B principal and interest payments as disclosed in Note 8.

Total revenues to the LLC from the Charter amounted to \$1,013,701 during the fiscal year. As part of the lease agreement, the Charter holds a right-of-use asset of \$8,905,255 and an operating lease liability of \$9,765,404 and the difference of \$860,149 is presented as prepaid expenses for the LLC. These transactions and balances have been presented as eliminations on the consolidating statement of financial statements.

At July 1, 2023, a prior period reclassification of \$663,968 was booked to increase the LLC's beginning net assets balance to properly allocate prepaid expenses related to the lease agreement and implementation of ASC 842.

NOTE 15 – SUBSEQUENT EVENTS

Literacy First Charter Schools has evaluated subsequent events for the period from June 30, 2024 through November 25, 2024, the date the financial statements were available to be issued. Management did not identify any transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

**LITERACY FIRST CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024**

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.

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	\$ 559,495
<i>COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants:</i>			
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425	15559	1,030,982
Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	374,473
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425	15620	89,678
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425	15621	157,075
Subtotal Education Stabilization Fund Discretionary Grants			<u>1,652,208</u>
<i>Passed through El Dorado SELPA:</i>			
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	317,015
ARP IDEA Part B, Sec 611, Local Assistance Entitlement	84.027	15638	73,876
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	24,362
Subtotal Special Education Cluster			<u>415,253</u>
Total U. S. Department of Education			<u>2,626,956</u>
Total Federal Expenditures			<u>\$ 2,626,956</u>

The following schedule provides a reconciliation between revenues reported on the statement of activities and the related expenditures reported on the schedule of expenditures of federal awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2024 or federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2024.

	AL Number	Amount
Total Federal Revenues reported in the Statement of Activities		\$ 2,623,893
Pandemic EBT Local Administrative Grant	10.649	3,063
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 2,626,956</u>

LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

	Charter No. 0405 Literacy First Charter School	Literacy First Charter School Issuer LLC	698 West Main Street LLC	Eliminations	Consolidated Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 16,038,284	\$ 994,699	\$ 8,729	\$ -	\$ 17,041,712
Investments	2,101,751	-	-	-	2,101,751
Accounts receivable	2,026,098	-	-	-	2,026,098
Prepaid expenses	691,902	860,149	-	(860,149)	691,902
Total current assets	<u>20,858,035</u>	<u>1,854,848</u>	<u>8,729</u>	<u>(860,149)</u>	<u>21,861,463</u>
Noncurrent assets					
Right-of-use asset	11,201,633	-	-	(8,905,255)	2,296,378
Deposits	61,000	-	-	(61,000)	-
Capital assets, net	4,522,661	7,657,952	4,655,941	-	16,836,554
Total noncurrent assets	<u>15,785,294</u>	<u>7,657,952</u>	<u>4,655,941</u>	<u>(8,966,255)</u>	<u>19,132,932</u>
Total Assets	<u>\$ 36,643,329</u>	<u>\$ 9,512,800</u>	<u>\$ 4,664,670</u>	<u>\$ (9,826,404)</u>	<u>\$ 40,994,395</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 4,952,756	\$ 61,000	\$ -	\$ (61,000)	\$ 4,952,756
Deferred revenue	69,071	-	-	-	69,071
Bonds payable, current portion	-	240,000	-	-	240,000
Total current liabilities	<u>5,021,827</u>	<u>301,000</u>	<u>-</u>	<u>(61,000)</u>	<u>5,261,827</u>
Noncurrent liabilities					
Operating lease liability	12,163,344	-	-	(9,765,404)	2,397,940
Bonds payable, net, less current portion	-	10,208,148	-	-	10,208,148
Total noncurrent liabilities	<u>12,163,344</u>	<u>10,208,148</u>	<u>-</u>	<u>(9,765,404)</u>	<u>12,606,088</u>
Total liabilities	<u>17,185,171</u>	<u>10,509,148</u>	<u>-</u>	<u>(9,826,404)</u>	<u>17,867,915</u>
Net assets					
Without donor restrictions	19,458,158	(996,348)	4,664,670	-	23,126,480
Total net assets	<u>19,458,158</u>	<u>(996,348)</u>	<u>4,664,670</u>	<u>-</u>	<u>23,126,480</u>
Total Liabilities and Net Assets	<u>\$ 36,643,329</u>	<u>\$ 9,512,800</u>	<u>\$ 4,664,670</u>	<u>\$ (9,826,404)</u>	<u>\$ 40,994,395</u>

**LITERACY FIRST CHARTER SCHOOLS
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024**

	Charter No. 0405 Literacy First Charter School	Literacy First Charter School Issuer LLC	698 West Main Street LLC	Eliminations	Consolidated Total
SUPPORT AND REVENUES					
Federal and state support and revenues					
Local control funding formula, state aid	\$ 19,307,795	\$ -	\$ -	\$ -	\$ 19,307,795
Federal revenues	2,623,893	-	-	-	2,623,893
Other state revenues	5,005,426	-	-	-	5,005,426
Total federal and state support and revenues	<u>26,937,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,937,114</u>
Local support and revenues					
Payments in lieu of property taxes	5,070,794	-	-	-	5,070,794
Rental income	-	1,013,701	-	(1,013,701)	-
Investment income, net	663,546	-	-	-	663,546
Other local revenues	600,889	-	38,984	(38,984)	600,889
Total local support and revenues	<u>6,335,229</u>	<u>1,013,701</u>	<u>38,984</u>	<u>(1,052,685)</u>	<u>6,335,229</u>
Total Support and Revenues	<u>33,272,343</u>	<u>1,013,701</u>	<u>38,984</u>	<u>(1,052,685)</u>	<u>33,272,343</u>
EXPENSES					
Program services	22,230,543	965,931	38,984	(1,052,685)	22,182,773
Management and general	7,217,522	-	-	-	7,217,522
Total Expenses	<u>29,448,065</u>	<u>965,931</u>	<u>38,984</u>	<u>(1,052,685)</u>	<u>29,400,295</u>
CHANGE IN NET ASSETS	3,824,278	47,770	-	-	3,872,048
Net Assets - Beginning	<u>15,633,880</u>	<u>(1,708,086)</u>	<u>4,664,670</u>	<u>663,968</u>	<u>19,254,432</u>
Prior period reclassification	-	663,968	-	(663,968)	-
Net Assets - Beginning, as restated	<u>15,633,880</u>	<u>(1,044,118)</u>	<u>4,664,670</u>	<u>-</u>	<u>19,254,432</u>
Net Assets - Ending	<u>\$ 19,458,158</u>	<u>\$ (996,348)</u>	<u>\$ 4,664,670</u>	<u>\$ -</u>	<u>\$ 23,126,480</u>

**LITERACY FIRST CHARTER SCHOOLS
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2024**

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.

	Second Period Report	Annual Report
	<u>Classroom-Based</u>	
Grade Span		
Regular		
Kindergarten through third	636.23	636.44
Fourth through sixth	467.58	467.08
Seventh through eighth	262.51	261.59
Ninth through twelfth	319.45	318.94
Total Average Daily Attendance - Classroom-Based	<u>1,685.77</u>	<u>1,684.05</u>
	<u>Nonclassroom-Based</u>	
Grade Span		
Regular		
Kindergarten through third	184.25	188.30
Fourth through sixth	75.52	76.65
Seventh through eighth	32.82	33.12
Ninth through twelfth	-	-
Total Average Daily Attendance - Nonclassroom-Based	<u>292.59</u>	<u>298.07</u>
Total Average Daily Attendance	<u>1,978.36</u>	<u>1,982.12</u>

**LITERACY FIRST CHARTER SCHOOLS
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2024**

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

Grade Level	Minutes Requirement	2023-24 Instructional Minutes	2023-24 Number of Days	Status
Kindergarten	36,000	36,620	181	Complied
Grade 1	50,400	60,105	181	Complied
Grade 2	50,400	60,105	181	Complied
Grade 3	50,400	60,105	181	Complied
Grade 4	54,000	60,105	181	Complied
Grade 5	54,000	60,105	181	Complied
Grade 6	54,000	61,010	181	Complied
Grade 7	54,000	62,610	181	Complied
Grade 8	54,000	62,610	181	Complied
Grade 9	64,800	65,515	181	Complied
Grade 10	64,800	65,515	181	Complied
Grade 11	64,800	65,515	181	Complied
Grade 12	64,800	65,515	181	Complied

**LITERACY FIRST CHARTER SCHOOLS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2024**

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.

June 30, 2024, fund balance/net position on the Financial Report - Alternative Form (Charter School Unaudited Actuals)	<u>\$ 19,650,168</u>
Adjustments:	
Increase (decrease) in total net assets:	
Write-off of receivable received from previous year	20,937
Lease expense for amortization of right-of-use asset under ASC 842	<u>(212,947)</u>
Net adjustments	<u>(192,010)</u>
June 30, 2024, net assets per audited financial statements	<u>\$ 19,458,158</u>

The reconciliation is for Literacy First Charter School and does not include Literacy First Charter School Issuer, LLC or 698 West Main Street LLC. Refer to consolidating financial statements for charter-specific activity and balances.

OTHER INFORMATION

**LITERACY FIRST CHARTER SCHOOLS
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2024**

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.

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 2023-24, the Charter served approximately 2,050 students in grades K to 12.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Priscilla Schreiber	President	2027
Katina Evans	Vice President	2024
Jason Lewis	Secretary	2024
Barbara Johnson	Trustee	2026
Mathew Simone	Trustee	2026

ADMINISTRATION

Debbie Beyer
Executive Director

Steve Robinson
Chief Business Officer

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, 2024, 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 25, 2024.

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. 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 or significant deficiencies may exist that were not identified.

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*.

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.

Christy White, Inc.

San Diego, California
November 25, 2024

**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, 2024. 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, 2024.

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.

Auditor's Responsibilities for the Audit of Compliance (continued)

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 judgment 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 judgment 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 and any significant deficiencies and material weaknesses in 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.

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 25, 2024

**REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER
COMPLIANCE FOR STATE PROGRAMS**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 requirements specified in the *2023-24 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to Literacy First Charter Schools' state program requirements for the fiscal year ended June 30, 2024.

In our opinion, Literacy First Charter Schools complied, in all material respects, with the laws and regulations of the applicable state programs for the year ended June 30, 2024, as identified in the table in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

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 *2023-24 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.

Auditor’s Responsibilities for the Audit for State Compliance (continued)

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 judgment 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 judgment 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	
Proposition 28 Arts and Music in Schools	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
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Not applicable
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.

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 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.

Christy White, Inc.

San Diego, California
November 25, 2024

FINDINGS AND QUESTIONED COSTS SECTION

**LITERACY FIRST CHARTER SCHOOLS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2024**

PART I – SUMMARY OF AUDITORS' RESULTS

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>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</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 (ESF) 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>Yes</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 <i>2023-24 Guide for Annual Audits of California K-12 Local Education Agencies ?</i>	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**LITERACY FIRST CHARTER SCHOOLS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
 FOR THE YEAR ENDED JUNE 30, 2024**

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

FIVE DIGIT CODE	AB 3627 FINDING TYPE
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

PART II – FINANCIAL STATEMENT FINDINGS

There were no audit findings related to the financial statements for the year ended June 30, 2024.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings and questioned costs related to federal awards for the year ended June 30, 2024.

PART IV – STATE AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings and questioned costs related to state awards for the year ended June 30, 2024.

**LITERACY FIRST CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2024**

PART V – SUMMARY OF PRIOR AUDIT FINDINGS

FINDING 2023-001: 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.

Condition: Audit adjustments were necessary to properly report cash with fiscal agent, capital assets, deferred revenue, deferred rent, beginning net assets, and bonded debt. Additionally, the Organization did not record balances relating to the new FASB standard on leases (ASC 842) which includes a right-of-use asset and related lease liability be recognized for all lease agreements.

Cause: Review and reconciliation of balance sheet accounts were not completed. Adjustments related to ASC 842 were not considered during the closing process.

Effect: The financial statements were not correct as reported by management. Several audit adjustments were necessary to adequately report the consolidated financial statements and recognize the new lease standard under ASC 842. The Organization may not have financial statements compliant with GAAP with regards to consolidated financial statements with all related entities.

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 evaluate all lease agreements and review the new FASB lease standard.

Current Status: Implemented.