



New Designs Charter Schools

Los Angeles, CA

Consolidated Financial
Statements & Supplemental
Information

Year Ended June 30, 2019



WILKINSON HADLEY
KING & CO. LLP
CPAs AND ADVISORS



New Designs Charter Schools
 Consolidated Financial Statements & Supplemental Information
 Year Ended June 30, 2019

INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	3
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements.....	7
SUPPLEMENTARY INFORMATION	23
Combining Consolidated Statement of Financial Position	23
Combining Consolidated Statement of Activities.....	24
Organization Structure	25
Schedule of Average Daily Attendance	26
Schedule of Instructional Time	27
Schedule of Financial Trends and Analysis.....	28
Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements.....	29
Schedule of Expenditures of Federal Awards.....	30
Notes to the Schedule of Expenditures of Federal Awards	31
Notes to Supplementary Information.....	32
OTHER INDEPENDENT AUDITORS’ REPORTS	33
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	33
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35
Independent Auditor’s Report on State Compliance	37
AUDITOR’S RESULTS, FINDINGS & RECOMMENDATIONS	40
Schedule of Auditor’s Results	40
Schedule of Findings and Questioned Costs.....	41
Schedule of Prior Year Audit Findings.....	45



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

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

Independent Auditor’s Report

To the Board of Directors
New Designs Charter Schools
Los Angeles, CA

Report on the Financial Statements

We have audited the accompanying financial statements of New Designs Charter Schools (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Designs Charter Schools as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, the School has adopted the provisions of FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 financial statements. The accompanying additional supplementary information, as required by the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2019, on our consideration of New Designs 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 New Designs 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 New Designs Charter Schools' internal control over financial reporting and compliance.

William A. Kelley King & Co., LLP

El Cajon, California
December 15, 2019

Financial Statements

New Designs Charter Schools

Statement of Financial Position

June 30, 2019

Assets

Cash and cash equivalents	\$ 2,888,419
Operating investments	2,367,694
Accounts receivable	2,199,056
Prepaid expenses	125,954
Security deposits	397,567
Other assets bond issuance costs, net of amortization	756,967
Property and equipment, net	<u>29,924,969</u>
Total Assets	<u><u>\$ 38,660,626</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 994,355
Accrued expenses and other liabilities	427,747
Bonds and notes payable	<u>28,658,366</u>
Total Liabilities	<u>30,080,468</u>

Net Assets

Without donor restrictions	
Undesignated	7,305,121
Invested in property and equipment, net of related debt	<u>1,266,603</u>
	<u>8,571,724</u>
With donor restrictions	
Restricted for state programs	<u>8,434</u>
	<u>8,434</u>
Total Net Assets	<u>8,580,158</u>
Total Liabilities and Net Assets	<u><u>\$ 38,660,626</u></u>

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

New Designs Charter Schools

Statement of Activities

June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Local Control Funding Formula (LCFF) sources			
State aid	\$ 8,399,363	\$ -	\$ 8,399,363
Education protection account state aid	2,039,330	-	2,039,330
Transfers in lieu of property taxes	3,019,109	-	3,019,109
Total LCFF sources	13,457,802	-	13,457,802
Federal contracts and grants	-	2,241,397	2,241,397
State contracts and grants	1,382,325	2,287,470	3,669,795
Local contracts and grants	17,725	-	17,725
Donations	57,338	-	57,338
Rental income	10,296	-	10,296
Interest income	67,118	-	67,118
Net assets released from restriction -			
Grant restrictions satisfied	4,520,433	(4,520,433)	-
Total revenue, support, and gains	19,513,037	8,434	19,521,471
Expenses and Losses			
Program services expense	11,538,677	-	11,538,677
Supporting services expense	6,277,898	-	6,277,898
Total expenses and losses	17,816,575	-	17,816,575
Change in Net Assets	1,696,462	8,434	1,704,896
Net Assets, Beginning of Year (Note J)	6,875,262	-	6,875,262
Net Assets, End of Year	\$ 8,571,724	\$ 8,434	\$ 8,580,158

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

New Designs Charter Schools

Statement of Functional Expenses

June 30, 2019

	Program Services	Supporting Services		Total
	Educational Programs	Management and General	Fundraising and Development	
Salaries and Wages	\$ 4,572,684	\$ 2,139,617	\$ -	\$ 6,712,301
Pension expense	713,137	333,133	-	1,046,270
Other employee benefits	665,895	308,856	-	974,751
Payroll taxes	152,454	70,949	-	223,403
Fees for services:				
Management	-	576,703	-	576,703
Legal	-	80,132	-	80,132
Audit	-	5,500	-	5,500
Other fees professional consultants	974,536	310,297	-	1,284,833
Other fees district oversight	-	150,863	-	150,863
Other fees banking and service charges	-	78,364	-	78,364
Advertising and promotion	-	95,917	-	95,917
Office expenses	341,808	-	-	341,808
Information technology	117,737	-	-	117,737
Occupancy	754,097	-	-	754,097
Travel	-	36,941	-	36,941
Amortization	-	30,998	-	30,998
Interest	-	1,570,521	-	1,570,521
Depreciation	567,213	-	-	567,213
Insurance	-	418,462	-	418,462
Other expenses:				
Books and supplies	1,770,853	-	-	1,770,853
Special education	775,286	-	-	775,286
Student transportation and activities	95,508	-	-	95,508
Dues and memberships	-	28,835	-	28,835
Miscellaneous	37,469	33,786	8,024	79,279
Total expenses by function	<u>11,538,677</u>	<u>6,269,874</u>	<u>8,024</u>	<u>17,816,575</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 11,538,677</u>	<u>\$ 6,269,874</u>	<u>\$ 8,024</u>	<u>\$ 17,816,575</u>

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

New Designs Charter Schools

Statement of Cash Flows

June 30, 2019

Cash Flows from Operating Activities	
Receipts from federal, state, and local contracts and grants	\$ 15,761,939
Receipts from property taxes	3,019,109
Receipts from contributions or donations	57,338
Other cash receipts	77,414
Payments for salaries, benefits and payroll taxes	(8,916,323)
Payments to vendors	(4,712,366)
Interest paid	(1,570,521)
Net Cash from Operating Activities	<u>3,716,590</u>
Cash Flows from Investing Activities	
Purchases of operating investments	(2,367,694)
Purchases of property and equipment	(4,156,618)
Net Cash used for Investing Activities	<u>(6,524,312)</u>
Cash Flows from Financing Activities	
Principal payments on bonds, notes and capital leases	(1,219,228)
Net Cash from Financing Activities	<u>(1,219,228)</u>
Net Change in Cash and Cash Equivalents	(4,026,950)
Cash and Cash Equivalents - Beginning of Year	<u>6,910,369</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,883,419</u>
Reconciliation of Change in Net Assets to Net Cash from Operating Activities	
Change in net assets	1,704,896
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization	567,213
Realized and unrealized (gain) loss on operating investments	
Changes in operating assets and liabilities	
Accounts receivable	(222,058)
Accounts receivable related entity	357,143
Prepaid expenses	2,122,528
Security deposits	(397,567)
Other assets loan origination fees	30,998
Accounts payable	258,792
Accrued expenses and other liabilities	40,402
Accounts payable to related entity	(362,144)
Unearned revenue	(383,613)
Net Cash from Operating Activities	<u>3,716,590</u>

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

New Designs Charter Schools

Notes to the Financial Statements

June 30, 2019

A. Organization and Significant Accounting Policies

Organization

New Designs Charter School University Park

New Designs Charter School University Park (the School) is a non-profit public benefit corporation. The School petitioned and was approved through the Los Angeles Unified School District in 2003. The school currently serves approximately 900 students grades 6-12.

The mission of the School is to accelerate students' academic achievement by developing healthy students, proficient readers and writers with higher-order thinking skills who are capable of problem solving and are self-motivated, competent, lifelong learners, and social inter-actors prepared for the work force of the 21st century.

New Designs Charter School Watts

New Designs Charter School Watts (the School) is a non-profit public benefit corporation. The School petitioned and was approved through the Los Angeles Unified School District for a five-year period on July 1, 2009 and ending on June 40, 2014, which was renewed through 2019.

The School commences operations during the 2009-2010 fiscal year and currently serves about 479 students in grades 6-12.

The mission of the School is to provide a multi-cultural, student-centered environment, in which all students will be held to a high academic and behavioral standard. Students will work in collaborative relationships, both within and outside the school site and will perform service to the greater community.

New Designs Property Inc

New Designs Property (the Corporation) exists to support the schools by leasing them the buildings they reside in. The Corporation charges the schools lease amounts equal to the required debt payments on the bonds it holds for the properties.

Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. The Corporation uses the accrual basis of accounting, under which revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Basis of Consolidation

The accompanying financial statements include the accounts of New Designs Charter School University Park, New Designs Charter School Watts and New Designs Property Inc, a California limited liability company, of which the School is the sole member and a related organization. All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ from those estimates.

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

Cash and Cash Equivalents

The School considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due to the School for federal, state, and local grants and contracts receivable. The amounts in accounts receivable are considered fully collectable and as such there has not been an allowance for uncollectable accounts or discount established for the School.

Property and Equipment

The School records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed in the current period.

The School reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Investments

The School records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values on the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

The School recognizes revenue from sales when the products are transferred and services are provided. The school records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The schools federal, state, and local contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expense. Consequently, at June 30, 2019 there were no conditional contributions, federal, state and local contracts and grants for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the School's program services, administrating, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$95,917 for the year ended June 30, 2019.

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The School is a 509(a)(1) publicly supported non-profit organization that is exempt from income taxes under Sections 501(a) and 501(c)(3) of the Internal Revenue Code. The School is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. The School may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2019, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The School follows provisions of uncertain tax positions as addressed in ASC 958. The School recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended June 30, 2019.

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

The School manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the School to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the School has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from government agencies. Investments are made by diversified investment managers whose performance is monitored by the School and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year to year basis, the School believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

Change in Accounting Principles

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, in November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The School has adopted these provisions in the accompanying financial statements.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The School has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The School has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Subsequent Events

The School has evaluated subsequent events through December 15, 2019, the date the financial statements were available to be issued.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

B. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	New Designs Charter School University Park	New Designs Charter School Watts	New Designs Properties Inc
Cash and cash equivalents	\$ 2,535,397	\$ 353,022	\$ -
Operating investments	-	-	2,367,694
Accounts receivable	1,491,036	708,020	-
Accounts receivable related entity	102,118	751,537	83,405
	<u>\$ 4,128,551</u>	<u>\$ 1,812,579</u>	<u>\$ 2,451,099</u>

C. Fair Value Measurements and Disclosures

The School reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3: Unobservable inputs for the asset or liability. In these situations, the School develops inputs using the best information available in the circumstances

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the School's assessment of the quality, risk, or liquidity profile of the asset or liability.

The following table presents assets and liabilities measured at fair value on a recurring basis at June 30, 2019:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Cash and money market funds (at cost)	\$ 2,367,694	\$ 2,367,694	\$ -	\$ -
	<u>\$ 2,367,694</u>	<u>\$ 2,367,694</u>	<u>\$ -</u>	<u>\$ -</u>

D. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2019 consisted of the following:

	New Designs Charter School University Park	New Designs Charter School Watts	New Designs Properties Inc
Cash in bank accounts	\$ 2,535,397	\$ 353,022	\$ -
Cash in money market accounts	-	-	2,367,694
Total cash and cash equivalents	<u>\$ 2,535,397</u>	<u>\$ 353,022</u>	<u>\$ 2,367,694</u>

Cash Equivalents

The School maintains a portion of their funds in short term investments with maturities less than three months in length (\$2,367,694 as of June 30, 2019). These cash equivalents consist of United States Government Money Market Funds. These funds are not FDIC insured and are therefore exposed to custodial credit risk. The School does not anticipate any losses as a result of this risk. Cash may be added or withdrawn from the money market accounts without limitation.

Cash in Bank

The remainder of the School's cash (\$2,888,419 as of June 30, 2019) is held in financial institutions which are either insured by the Federal Deposit Insurance School (FDIC) up to a limit of \$250,000 per depositor or certain non-interest-bearing accounts that are fully insured by the FDIC. As of June 30, 2019, the School held \$1,914,467 in excess of the FDIC insured amounts. The School reduces its exposure to risk by maintaining such deposits with high quality financial institutions. The School has not experienced any losses in such accounts and believe it is not exposed to any significant credit risk.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

E. Accounts Receivable

As of June 30, 2019, accounts receivable consisted of the following:

	New Designs Charter School University Park	New Designs Charter School Watts
Federal Government		
Child Nutrition	\$ 249,374	\$ 56,476
Title II	56,775	28,907
Title V	12,685	8,318
Title I	8,326	130,594
Other Federal Programs	6,123	74
State Government		
State Aid	147,092	6,873
Education Protection Account	406,416	169,809
Mandated Funds	79,006	38,425
Lottery Funding	80,816	41,466
SB740	245,817	154,476
Other State Programs	36,485	20,318
Local Government		
Property tax payments	162,121	52,284
Total Accounts Receivable	<u>\$ 1,491,036</u>	<u>\$ 708,020</u>

F. Property and Equipment

Property and equipment for New Designs Charter School University Park consisted of the following at June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-Depreciable Capital Assets				
Work in Progress	\$ 4,908,722	\$ 1,287,849	\$ -	\$ 6,196,571
Total Non-Depreciable Capital Assets	<u>4,908,722</u>	<u>1,287,849</u>	<u>-</u>	<u>6,196,571</u>
Depreciable Capital Assets				
Buildings and Improvements	2,834,400	-	-	2,834,400
Equipment, Furniture, and Fixtures	620,159	45,607	-	665,766
Total Depreciable Capital Assets	<u>3,454,559</u>	<u>45,607</u>	<u>-</u>	<u>3,500,166</u>
Total Capital Assets	8,363,281	1,333,456	-	9,696,737
Less Accumulated Depreciation	<u>(2,200,950)</u>	<u>(190,249)</u>	<u>-</u>	<u>(2,391,199)</u>
Capital Assets, Net	<u>6,162,331</u>	<u>1,143,207</u>	<u>-</u>	<u>7,305,538</u>

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

Property and equipment New Designs Charter School Watts consisted of the following at June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-Depreciable Capital Assets				
Work in Progress	\$ -	\$ 42,100	\$ -	\$ 42,100
Total Non-Depreciable Capital Assets	-	42,100	-	42,100
Depreciable Capital Assets				
Buildings and Improvements	962,209	-	-	962,209
Equipment, Furniture, and Fixtures	163,981	5,555	-	169,536
Total Depreciable Capital Assets	1,126,190	5,555	-	1,131,745
Total Capital Assets	1,126,190	47,655	-	1,173,845
Less Accumulated Depreciation	(756,763)	(64,595)	-	(821,358)
Capital Assets, Net	369,427	(16,940)	-	352,487

Property and equipment New Designs Property Inc consisted of the following at June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-Depreciable Capital Assets				
Land	\$14,348,000	\$ -	\$ -	\$14,348,000
Total Non-Depreciable Capital Assets	14,348,000	-	-	14,348,000
Depreciable Capital Assets				
Buildings and Improvements	9,371,074	203,851	-	9,574,925
Total Depreciable Capital Assets	9,371,074	203,851	-	9,574,925
Total Capital Assets	23,719,074	203,851	-	23,922,925
Less Accumulated Depreciation	(3,915,268)	(312,369)	(2,571,656)	(1,655,981)
Capital Assets, Net	19,803,806	(108,518)	(2,571,656)	22,266,944

Combined Property and equipment consisted of the following at June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-Depreciable Capital Assets				
Land	\$14,348,000	\$ -	\$ -	\$14,348,000
Work in Progress	4,908,722	1,329,949	-	6,238,671
Total Non-Depreciable Capital Assets	19,256,722	1,329,949	-	20,586,671
Depreciable Capital Assets				
Buildings and Improvements	13,167,683	203,851	-	13,371,534
Equipment, Furniture, and Fixtures	784,140	51,162	-	835,302
Total Depreciable Capital Assets	13,951,823	255,013	-	14,206,836
Total Capital Assets	33,208,545	1,584,962	-	34,793,507
Less Accumulated Depreciation	(6,872,981)	(567,213)	(2,571,656)	(4,868,538)
Capital Assets, Net	26,335,564	1,017,749	(2,571,656)	29,924,969

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

G. Bonds and Notes Payable

Bonds Payable

On October 12, 2012 \$18,265,000 of California School Finance Authority Educational Facilities Revenue Bonds were issued to New Designs Property Inc. The interest rate on the bonds range between 5.25% and 7.00%. The debt service requirements are primarily payable from rental income collected from New Designs Charter Schools.

On August 14, 2014 \$6,955,000 of California School Finance Authority Educational Facilities Revenue Bonds were issued to New Designs Property Inc. The interest rate on the bonds range between 5.25% and 7.00%. The debt service requirements are primarily payable from rental income collected from New Designs Charter Schools.

Future maturities of bonds payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 530,000	\$ 1,383,800	\$ 1,913,800
2021	565,000	1,349,738	1,914,738
2022	595,000	1,313,337	1,908,337
2023	640,000	1,274,950	1,914,950
2024	670,000	1,241,249	1,911,249
2025-29	3,940,000	5,632,936	9,572,936
2030-34	5,115,000	4,453,775	9,568,775
2035-39	6,700,000	2,575,700	9,275,700
2040-44	5,970,000	835,825	6,805,825
	<u>\$ 24,725,000</u>	<u>\$ 20,061,310</u>	<u>\$ 44,786,310</u>

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

Notes Payable

New Designs Charter School University Park

On June 28, 2018 the School took out a business loan from Pacific Premier Bank of \$3,500,000 with an adjustable interest of 0.5% plus prime, that accrues monthly at 5.5% during the year. The loan will mature on May 30, 2025, with monthly payments that include \$19,444 of principle and additional interest. A final lump sum payment is due in 2024-25 fiscal year.

Notes payable consisted of the following at June 30, 2019:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 233,333	\$ 175,114	\$ 408,447
2021	233,333	162,103	395,436
2022	233,333	149,091	382,424
2023	233,333	136,079	369,412
2024	233,333	123,068	356,401
2025	1,566,702	101,382	1,668,084
	\$ 2,733,367	\$ 846,837	\$ 3,580,204

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

H. Leases

New Designs Charter School University Park

The School leases its facilities through New Designs Property Inc on a long-term lease ending April 30, 2042. The School is required to keep the following month's lease payment on deposit with the owners at all times. Future minimum lease payments are as follows:

<u>Year Ended June 30</u>	<u>Operating Leases</u>
2020	\$ 1,851,343
2021	1,871,199
2022	1,887,262
2023	1,910,171
2024	1,930,618
2025-29	10,004,256
2030-34	10,668,946
2035-39	11,487,230
2040-44	9,473,133
2045-46	2,541,055
Total minimum lease payments	<u>\$ 53,625,213</u>

Rent expense for the year ended June 30, 2019 totaled \$1,826,246.

New Designs Charter School Watts

New Designs Charter School Watts leases a facility, from New Designs Properties, under a 20-year lease agreement, with an option to renew at the end of the lease term. This lease also includes the parking facilities at the location. Future minimum lease payments are as follows:

<u>Year Ended June 30</u>	<u>Operating Leases</u>
2020	\$ 541,100
2021	539,688
2022	538,038
2023	541,150
2024	538,788
2025-29	2,702,438
2030-34	2,701,537
2035-39	2,693,900
2040-44	2,702,000
Total minimum lease payments	<u>\$ 13,498,639</u>

Rent expense for the year ended June 30, 2019 totaled \$609,637.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

I. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2019:

Subject to expenditure for specified purpose:		
Educational Programs	\$ 5,741	\$ 2,693
	5,741	2,693
Total net assets with donor restrictions	\$ 5,741	\$ 2,693

J. Adjustment to Beginning Net Assets

The beginning net assets were adjusted for New Designs Charter School University Park and New Designs Property Inc due to accounting errors in prior years.

	New Designs Charter School University Park	New Designs Properties Inc
Adjustments to Beginning Net Assets		
Net Assets, Beginning Balance	\$ 6,686,711	\$ (2,422,229)
Adjustment to Beginning Net Assets	(1,044,166)	2,335,717
Adjusted Beginning net Assets	\$ 5,642,545	\$ (86,512)

K. Employee Retirement System

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

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

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

The Schools participation in these plans for the fiscal year ended June 30, 2019, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2019, 2018 and 2017 is for the plan’s year-end at June 30, 2019, 2018 and 2017, respectively. The zone status is based on information that the School received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

Period to Period Comparability:

New Designs Charter Schools decreased in CalSTRS contributions from 2017 to 2018 by 12.14% followed by an increase in 2019 of 10%. New Designs Charter Schools increased in CalPERS contributions from 2017 to 2018 by 137.3% followed by an additional increase in 2019 of 19.48%. The fluctuation was caused by a combination of fluctuating student population and the rising pension costs during the period.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status Year Ended June 30,			FIP/RP Status Pending/ Implemented
		2019	2018	2017	
CalSTRS	19645 & 19646 3540816164 &	Yellow	Yellow	Yellow	No
CalPERS	1492319552	Yellow	Yellow	Yellow	No

Pension Fund	Contributions			Number of Employees	Surcharge Imposed
	2019	2018	2017		
CalSTRS	\$ 695,906	\$ 632,625	\$ 720,047	113	No
CalPERS	350,364	293,246	123,577	42	No
Total	\$ 1,046,270	\$ 925,871	\$ 843,624	155	

CalSTRS:

The School 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. Required contribution rates are set by the California Legislature and detailed in Teachers’ Retirement Law. Contribution rates are expressed as a level of percentage of payroll using the entry age normal actuarial cost method. CalSTRS also uses the level of percentage of payroll method to calculate the amortization of any unfunded liability. Copies of the STRS annual report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

For the fiscal year ended June 30, 2019, active plan members were required to contribute between 10.205% and 10.25% of their salary, depending on their hire date. The employer contribution rate was 16.28% of annual payroll. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. The School made contributions as noted above. For the year ended June 30, 2019 the State contributed \$658,802 (15.412% of certificated salaries) on behalf of the School.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

CalPERS:

The School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, with the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Active plan members are required to contribute 7% of their salary and the School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018-19 was 18.062% of classified salaries. The School made contributions as noted above. For the year ended June 30, 2019 the State contributed \$125,388 (6.464% of classified salaries) on behalf of the School.

L. Related Party Transactions

Related parties as defined by generally accepted accounting standards include:

1. Affiliates of the entity,
2. Management and members of their immediate families, or
3. Other parties that can significantly influence management or operating policies.

New Designs Charter School University Park, New Designs Charter School Watts and New Designs Property Inc, are affiliated through common executive management. In order to benefit from cost savings associated with sharing of employees, bulk purchasing, and other negotiations that benefit all three organizations, there are agreements between the organizations to reimburse such expenses to the organization paying the transaction. All inter entity receivables and payables were eliminated in the combining statements.

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

New Designs Charter Schools
Notes to the Financial Statements, Continued
June 30, 2019

M. Upcoming Changes in Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued the following Accounting Standards Updates (ASU) that become effective during the 2019-20 fiscal year:

1. FASB ASU 2019-04 *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*
2. FASB ASU 2018-20 *Leases (Topic 842): Narrow-Scope Improvements for Lessors*
3. FASB ASU 2018-16 *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a benchmark Interest Rate for Hedge Accounting Purposes*
4. FASB ASU 2018-11 *Leases (Topic 842): Targeted Improvements*
5. FASB ASU 2018-10 *Improvements to Topic 842, Leases*
6. FASB ASU 2018-09 *Codification Improvements*
7. FASB ASU 2018-08 *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*
8. FASB ASU 2018-02 *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*
9. FASB ASU 2018-01 *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*
10. FASB ASU 2017-15 *Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995*
11. FASB ASU 2017-12 *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*
12. FASB ASU 2017-10 *Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services*
13. FASB ASU 2017-07 *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*
14. FASB ASU 2017-06 *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting*
15. FASB ASU 2017-01 *Business Combinations (Topic 805): Clarifying the Definition of a Business*
16. FASB ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*
17. FASB ASU 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
18. FASB ASU 2016-02 *Leases (Topic 842)*

These updates were issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The updates effective during the 2019-20 fiscal year will not impact the financial accounting or presentation for the School.

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

Supplementary Information

New Designs Charter Schools
Combining Consolidated Statement of Financial Position
June 30, 2019

	New Designs Charter School University Park	New Designs Charter School Watts	New Designs Properties Inc	Home Office Location	Elimination	Total
Assets						
Cash and cash equivalents	\$ 2,535,397	\$ 353,022	\$ -	\$ -	\$ -	\$ 2,888,419
Operating investments	-	-	2,367,694	-	-	2,367,694
Accounts receivable	1,491,036	708,020	-	-	-	2,199,056
Accounts receivable related entity	401,068	751,537	63,193	752,124	(1,967,922)	-
Prepaid expenses	62,122	22,179	41,653	-	-	125,954
Security deposits	372,000	25,567	-	-	-	397,567
Other assets loan origination fees	-	-	756,967	-	-	756,967
Property and equipment, net	7,305,538	352,487	22,266,944	-	-	29,924,969
Total Assets	<u>\$ 12,167,161</u>	<u>\$ 2,212,812</u>	<u>\$ 25,496,451</u>	<u>\$ 752,124</u>	<u>\$(1,967,922)</u>	<u>\$ 38,660,626</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable	\$ 100	\$ -	\$ 242,131	\$ 752,124	\$ -	\$ 994,355
Accrued expenses and other liabilities	246,467	181,280	-	-	-	427,747
Accounts payable to related entity	1,503,661	-	464,261	-	(1,967,922)	-
Bonds and notes payable	3,933,366	-	24,725,000	-	-	28,658,366
Total Liabilities	<u>5,683,594</u>	<u>181,280</u>	<u>25,431,392</u>	<u>752,124</u>	<u>(1,967,922)</u>	<u>30,080,468</u>
Net Assets						
Without donor restrictions						
Undesignated	3,105,654	1,676,352	2,523,115	-	-	7,305,121
Invested in property and equipment, net of related debt	3,372,172	352,487	(2,458,056)	-	-	1,266,603
	<u>6,477,826</u>	<u>2,028,839</u>	<u>65,059</u>	<u>-</u>	<u>-</u>	<u>8,571,724</u>
With donor restrictions						
Restricted for state programs	5,741	2,693	-	-	-	8,434
	<u>5,741</u>	<u>2,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,434</u>
Total Net Assets	<u>6,483,567</u>	<u>2,031,532</u>	<u>65,059</u>	<u>-</u>	<u>-</u>	<u>8,580,158</u>
Total Liabilities and Net Assets	<u>\$ 12,167,161</u>	<u>\$ 2,212,812</u>	<u>\$ 25,496,451</u>	<u>\$ 752,124</u>	<u>\$(1,967,922)</u>	<u>\$ 38,660,626</u>

See accompanying notes to supplementary information.

New Designs Charter Schools
Combining Consolidated Statement of Activities
June 30, 2019

	New Designs Charter School - University Park		New Designs Charter School - Watts		New Designs Properties Inc	Home Office	Elimination	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	Without Donor Restrictions	Without Donor Restrictions	
Revenue, Support, and Gains								
Local Control Funding Formula (LCFF) sources								
State aid	\$ 5,725,981	\$ -	\$ 2,673,382	\$ -	\$ -	\$ -	\$ -	\$ 8,399,363
Education protection account state aid	1,410,684	-	628,646	-	-	-	-	2,039,330
Transfers in lieu of property taxes	2,070,245	-	948,864	-	-	-	-	3,019,109
Total LCFF sources	<u>9,206,910</u>	<u>-</u>	<u>4,250,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,457,802</u>
Federal contracts and grants	-	1,381,800	-	859,597	-	-	-	2,241,397
State contracts and grants	754,466	1,580,191	627,859	707,279	-	-	-	3,669,795
Local contracts and grants	14,095	-	3,630	-	-	-	-	17,725
Donations	49,310	-	8,028	-	-	-	-	57,338
Rental income	10,296	-	-	-	1,951,734	-	(1,951,734)	10,296
Interest income	14,015	-	597	-	52,506	-	-	67,118
Net assets released from restriction -								-
Grant restrictions satisfied	<u>2,956,250</u>	<u>(2,956,250)</u>	<u>1,564,183</u>	<u>(1,564,183)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, support, and gains	<u>13,005,342</u>	<u>5,741</u>	<u>6,455,189</u>	<u>2,693</u>	<u>2,004,240</u>	<u>-</u>	<u>(1,951,734)</u>	<u>19,521,471</u>
Expenses and Losses								
Program services expense	8,938,901	-	4,218,929	-	332,581	-	(1,951,734)	11,538,677
Supporting services expense	3,231,160	-	1,526,650	-	1,520,088	-	-	6,277,898
Total expenses and losses	<u>12,170,061</u>	<u>-</u>	<u>5,745,579</u>	<u>-</u>	<u>1,852,669</u>	<u>-</u>	<u>(1,951,734)</u>	<u>17,816,575</u>
Change in Net Assets	835,281	5,741	709,610	2,693	151,571	-	-	1,704,896
Net Assets, Beginning of Year (Note J)	<u>5,642,545</u>	<u>-</u>	<u>1,319,229</u>	<u>-</u>	<u>(86,512)</u>	<u>-</u>	<u>-</u>	<u>6,875,262</u>
Net Assets, End of Year	<u>\$ 6,477,826</u>	<u>\$ 5,741</u>	<u>\$ 2,028,839</u>	<u>\$ 2,693</u>	<u>\$ 65,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,580,158</u>

See accompanying notes to supplementary information.

New Designs Charter Schools

Organization Structure

June 30, 2019

New Designs Charter School University Park, Charter #0601, began operations in 2003 under the authorizing district of Los Angeles Unified School District serving grades 6-12.

New Designs Charter School Watts, Charter #1120, began operations in 2009 under the authorizing district of Los Angeles Unified School District, serving grades 6-12.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Lloyd McKinney	President	Two Year Term Expires June 30, 2019
Sheldon Zaslansky	Treasurer	Two Year Term Expires June 30, 2019
Derek Akrofi	Secretary	Two Year Term Expires June 30, 2019
Andrea Cockrum	Member	Two Year Term Expires June 30, 2019
Diego Abba	Member	Two Year Term Expires June 30, 2019
Kojo Essien	Member	Two Year Term Expires June 30, 2019

ADMINISTRATION

Paul Okaiteye
Chief Executive Officer

Samuel Kyerematen
Director of Business Services

See accompanying notes to supplementary information.

New Designs Charter Schools
 Schedule of Average Daily Attendance
 Year Ended June 30, 2019

New Designs Charter School University Park

	Second Period Report		Annual Report	
	Original D92088AB	Revised N/A	Original 442C235C	Revised N/A
Classroom Based Attendance				
Grades 4-6	125.13	N/A	124.96	N/A
Grades 7-8	279.57	N/A	279.14	N/A
Grades 9-12	404.78	N/A	400.94	N/A
Total Classroom Based Attendance	809.48	N/A	805.04	N/A
Total ADA	809.48	N/A	805.04	N/A

New Designs Charter School Watts

	Second Period Report		Annual Report	
	Original 4511777D	Revised N/A	Original 4676EB94	Revised N/A
Classroom Based Attendance				
Grades 4-6	27.34	N/A	26.73	N/A
Grades 7-8	134.41	N/A	113.83	N/A
Grades 9-12	209.18	N/A	206.81	N/A
Total Classroom Based Attendance	370.93	N/A	347.37	N/A
Total ADA	370.93	N/A	347.37	N/A

See accompanying notes to supplementary information.

New Designs Charter Schools

Schedule of Instructional Time

Year Ended June 30, 2019

New Designs Charter School University Park

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Traditional Days</u>	<u>Status</u>
6th Grade	54,000	72,785	180	Complied
7th Grade	54,000	72,785	180	Complied
8th Grade	54,000	72,785	180	Complied
9th Grade	64,800	72,505	180	Complied
10th Grade	64,800	72,505	180	Complied
11th Grade	64,800	72,505	180	Complied
12th Grade	64,800	72,505	180	Complied

New Designs Charter School Watts

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Traditional Days</u>	<u>Status</u>
6th Grade	54,000	73,280	180	Complied
7th Grade	54,000	73,280	180	Complied
8th Grade	54,000	73,280	180	Complied
9th Grade	64,800	73,240	180	Complied
10th Grade	64,800	73,240	180	Complied
11th Grade	64,800	73,240	180	Complied
12th Grade	64,800	73,240	180	Complied

See accompanying notes to supplementary information.

New Designs Charter Schools
Schedule of Financial Trends and Analysis
Year Ended June 30, 2019

	Budget 2020	2019	2018	2017
Revenues	\$23,359,447	\$19,621,471	\$21,047,097	\$19,990,507
Expenses	22,400,203	17,566,968	19,513,162	19,701,455
Change in Net Assets	<u>959,244</u>	<u>2,054,503</u>	<u>1,533,935</u>	<u>289,052</u>
Ending Net Assets	<u>\$ 9,610,271</u>	<u>\$ 8,651,027</u>	<u>\$ 6,596,524</u>	<u>\$ 5,062,589</u>
Unrestricted Net Assets	<u>\$ 959,244</u>	<u>\$ 8,642,593</u>	<u>\$ 6,596,524</u>	<u>\$ 5,062,589</u>
Unrestricted net assets as a percentage of total expenses	<u>4.28%</u>	<u>49.20%</u>	<u>33.81%</u>	<u>25.70%</u>
Total Long Term Debt	<u>\$27,895,033</u>	<u>\$28,658,366</u>	<u>\$29,877,594</u>	<u>\$29,669,408</u>
ADA at P2	<u>1,462</u>	<u>1,180</u>	<u>1,274</u>	<u>1,278</u>

The School's ending net assets has increased by \$3,588,438 (70.88%) over the past three fiscal years. The significant increase is due to revenue per ADA increasing while maintaining costs at efficient levels. The average daily attendance (ADA) reported by the School has decreased by 98 (7.67%) over the past three years. The 2019-20 fiscal year budget projects an increase in net assets of \$959,244 (11.09%) and an increase in ADA of 282 (23.9%).

See accompanying notes to supplementary information.

New Designs Charter Schools

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements Year Ended June 30, 2019

New Designs Charter School University Park

June 30, 2019 annual financial alternative form net assets:	\$ 6,167,872
Adjustments and reclassifications:	
Understatement of accounts receivable	11,006
Overstatement of unearned revenue	5,741
Rounding	<u>(2)</u>
Total adjustments and reclassifications	<u>16,745</u>
June 30, 2019 audited financial statements net assets:	<u><u>\$ 6,184,617</u></u>

New Designs Charter School Watts

June 30, 2019 annual financial alternative form net assets:	\$ 2,031,531
Adjustments and reclassifications:	
Rounding	<u>1</u>
Total adjustments and reclassifications	<u>1</u>
June 30, 2019 audited financial statements net assets:	<u><u>\$ 2,031,532</u></u>

See accompanying notes to supplementary information.

New Designs Charter Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Subrecipient Expenditures	Federal Expenditures
SPECIAL EDUCATION (IDEA) CLUSTER:				
U.S. Department of Education				
Passed through California Department of Education				
IDEA Basic Local Assistance	84.027	13379	\$ -	\$ 245,107
Total Special Education (IDEA) Cluster			<u>-</u>	<u>245,107</u>
OTHER PROGRAMS				
U.S. Department of Education				
Passed through State Department of Education				
Title I	84.010	14329	\$ -	\$ 787,812
Title IV Student Support	84.424	15396	-	40,927
Title III	84.365	15146	-	24,996
Title II - Teacher Quality	84.367	14341	-	68,385
Total passed through State Department of Education			<u>-</u>	<u>922,120</u>
Total U.S. Department of Education			<u>-</u>	<u>1,167,227</u>
U.S. Department of Agriculture				
Passed through State Department of Education				
National School Lunch Program	10.553	13523	-	1,074,170
Total Child Nutrition Cluster			<u>-</u>	<u>1,074,170</u>
Total passed through State Department of Education			<u>-</u>	<u>1,074,170</u>
Total U.S. Department of Agriculture			<u>-</u>	<u>1,074,170</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ -</u></u>	<u><u>\$ 2,241,397</u></u>

See accompanying notes to supplementary information.

New Designs Charter Schools

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of 2 CFR §200.502 *Basis for Determining Federal Awards Expended* and 2CFR §200.510(b) *Schedule of Expenditures of Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Summary of Significant Accounting Policies

The expenditures reported on the schedule are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Rate

Indirect costs were calculated in accordance with 2 CFR §200.412 *Direct and Indirect Costs*. The School used an indirect cost rate of 5.25% based on the rate approved by the California Department of Education for each program which did not have a pre-defined allowable indirect cost rate. The School did not elect to use the 10% de minimis cost rate as covered in 2 CFR §200.414 *Indirect Costs*.

Program	CFDA #	Indirect Cost Rate
Title III	84.365	2.00%

Schoolwide Program

The School a “schoolwide programs”. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limiting services to certain targeted students. The following federal program amounts were expended by the School in its schoolwide program:

Program	CFDA #	Amount Expended
Title I	84.010	\$ 787,812

See accompanying notes to supplementary information.

New Designs Charter Schools

Notes to Supplementary Information

Year Ended June 30, 2019

A. Purpose of Schedules

Combining Statement of Financial Position

This schedule provides the information by school which combines into the School's overall statement of net position, with eliminations for activities between the schools within the School.

Combining Statement of Activities

This schedule provides the information by school which combines into the School's overall statement of activities.

Organization Structure

This schedule provides information about the schools' charter numbers, district of authorization, members of the governing board, and members of administration.

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

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

Schedule of Financial Trends and Analysis

Budget information for 2020 is presented for analysis purposes only and is based on estimates of the 2019-20 fiscal year. The information has not been subject to audit.

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

Reconciliation of Unaudited Financial Report Alternative Form with Audited Financial Statements

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

Other Independent Auditors' Reports

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
New Designs Charter Schools
Los Angeles, CA

Report on Compliance for Each Major Federal Program

We have audited New Designs 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 New Designs Charter Schools' major federal programs for the year ended June 30, 2019. New Designs Charter Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of New Designs Charter Schools' major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about New Designs Charter Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of New Designs Charter Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, New Designs 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, 2019.

Report on Internal Control Over Compliance

Management of New Designs Charter Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered New Designs Charter Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of New Designs Charter Schools' 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 a 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

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.

William A. Kelley King & Co., LLP

El Cajon, California
December 15, 2019

Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
New Designs Charter Schools
Los Angeles, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Designs Charter Schools (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

William Stanley King & Co., LLP

El Cajon, California
December 15, 2019

Independent Auditor's Report on State Compliance

To the Board of Directors
New Designs Charter Schools
Los Angeles, CA

Report on State Compliance

We have audited the Corporation's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of the school's state programs identified below for the fiscal year ended June 30, 2019.

Management's Responsibility for State Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit Guide *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance*, prescribed in Title 5, *California Code of Regulations*, section 19810. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller General of the United States; and the State's audit guide *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about each school's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Corporation's compliance with those requirements.

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

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools	
A. Attendance.....	N/A
B. Teacher Certification and Misassignments.....	N/A
C. Kindergarten Continuance.....	N/A
D. Independent Study.....	N/A
E. Continuation Education.....	N/A
F. Instructional Time.....	N/A
G. Instructional Materials.....	N/A
H. Ratio of Administrative Employees to Teachers.....	N/A
I. Classroom Teacher Salaries.....	N/A
J. Early Retirement Incentive.....	N/A
K. Gann Limit Calculation.....	N/A
L. School Accountability Report Card.....	N/A
M. Juvenile Court Schools.....	N/A
N. Middle or Early College High Schools.....	N/A
O. K-3 Grade Span Adjustment.....	N/A
P. Transportation Maintenance of Effort.....	N/A
Q. Apprenticeship: Related and Supplemental Instruction.....	N/A
R. Comprehensive School Safety Plan.....	N/A
S. District of Choice.....	N/A
School Districts, County Offices of Education, and Charter Schools	
T. California Clean Energy Jobs Act.....	Yes
U. After/Before School Education and Safety Program.....	Yes
V. Proper Expenditure of Education Protection Account Funds.....	Yes
W. Unduplicated Local Control Funding Formula Pupil Counts.....	Yes
X. Local Control and Accountability Plan.....	Yes
Y. Independent Study - Course Based.....	N/A
Charter Schools	
AA. Attendance.....	Yes
BB. Mode of Instruction.....	Yes
CC. Nonclassroom Based Instruction/Independent Study.....	N/A
DD. Determination of Funding for Nonclassroom Based Instruction.....	N/A
EE. Annual Instructional Minutes - Classroom Based.....	Yes
FF. Charter School Facility Grant Program.....	Yes

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

Opinion on State Compliance

In our opinion, New Designs Charter Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with audit guidelines outlined in the *2018-19 Guide for Audits of California K-12 Local Education Agencies*, prescribed in Title 5, *California Code of Regulations*, section 19810 and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 & 2019-002. Our opinion on each program is not modified with respect to these matters.

New Designs Charter Schools' Response to the Noncompliance Findings

New Designs Charter Schools' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. New Designs 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing. This report is an integral part of an audit performed in accordance with *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Accordingly, this report is not suitable for any other purpose.

William A. Appleby King & Co., LLP

El Cajon, California
December 15, 2019

Auditor's Results, Findings & Recommendations

New Designs Charter Schools

Schedule of Auditor's Results

Year Ended June 30, 2019

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
One or more material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
One or more significant deficiencies identified that are not considered material weakness(es)?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

FEDERAL AWARDS

Internal control over major programs:		
One or more material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
One or more significant deficiencies identified that are not considered material weakness(es)?	<u> </u> Yes	<u> X </u> No
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Compliance supplement utilized for single audit	<u>August 2019</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516?	<u> </u> Yes	<u> X </u> No
Identification of major programs:		

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
10.555	Child Nutrition Cluster

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

STATE AWARDS

Any audit findings disclosed that are required to be reported in accordance with <i>2018-19 Guide for Annual Audits of California K-12 Local Education Agencies?</i>	<u> X </u> Yes	<u> </u> No
Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>	

New Designs Charter Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2019

Findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*, Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Finding codes as identified in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* are 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
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

A. Financial Statement Findings

There are no findings to report.

B. Federal Award Findings

There are no findings to report.

C. State Award Findings

2019-001 After School Education and Safety Program (40000)

Criteria

Select a representative sample of attendance days within the ASES program to determine whether the reported number of pupils served is supported by written records, by tracing the reported daily attendance numbers through any documentation used to summarize the number of pupils served, to originating data. If the LEA misreported the attendance of the number of students served in any school in the sample, include the misreporting in a finding.

Determine whether the LEA has a process or procedure that gives first priority for enrollment to pupils who are identified by the program as homeless youth or in foster care at the time they apply for enrollment; and for each middle or junior high school in the sample, second priority for enrollment to pupils who attend daily. Report noncompliance in a finding.

New Designs Charter Schools
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2019

Condition

While reviewing attendance backup for the ASES program the auditor noted several days of granted attendance that did not meet the requirements to be counted for the program. Discrepancies included, no sign out time, no signature accompanying a sign out time, one person appearing to sign out for an entire class within the program. There were also several sheets of attendance that were typed pages of student names without any sign in, out, times or early release reason written on them. The auditor also noted that several of the classes being granted attendance were high school students. The auditor noted on early release days that the backup provided had major discrepancies. For the month of October 2018 the auditor was provided 2 early release days of ASES sign out sheets. Upon further investigation, the pages were a photocopy of the same day of attendance. The auditor cannot be sure what attendance exists for early release days.

The school was unable to provide proof that their policies in place for 2018-19 included wording that priority enrollment would be given to those students who meet the state's definition of homeless.

Questioned Costs

None. This program is funded based on prior year attendance numbers. The State has the ability to curtail funding in future years if they feel it necessary.

Context

The condition was identified as a result of our complete review of the ASES program compliance requirements outlined in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Effect

The attendance for the ASES program was overreported to the state.

Cause

There appears to be a lack of understanding from school ASES coordinators on what the level of backup is required to claim attendance for the program.

Recommendation

We recommend all staff involved with ASES, at every level, receive training on the program requirements. We also recommend that the school create new documentation for the program to allow much easier attendance verification internally and externally.

LEA Response

The ASES attendance claim for was accurately determined. All the students in the program signed in correctly everyday but many of them did not sign out, hence the lack of proper documentation as determined by the auditor. This lack of adequate documentation was partly due to staffing changes. In view of the findings the staff of the ASES program will be retrained to ensure proper implementation procedures in compliance with the directives as specified in ASES operational policy document. Some high school students also signed in and they were not supposed to do that. The program will be limited to students from grades 6 through 8 as required by the program. The ASES Coordinator will ensure compliance with the attendance on a daily basis and the Director of Business Services will perform monthly compliance audits.

New Designs Charter Schools
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2019

2019-002 Local Control Funding Formula Unduplicated Pupil Count (40000)

Criteria

Select a representative sample, to achieve a high level of assurance, from the students that are only English Learner (EL) eligible (which means students are indicated as a “No” under the “Direct Certification” column, a “No” under “Foster” column, a “No” under the “Homeless” column, blank under the “Migrant Ed Program” column, a blank under the “NSLP Program” column, and “EL” under the “ELAS Designation” column) and verify there is supporting documentation that indicates the student was eligible for the designation, such as (a) a copy of the parent/guardian notification letter that states the pupil is initially designated as an EL or is a continuing EL, and a copy of the California English Language Development Test (CELDT) Student Performance Level Report that indicates the student’s overall performance and domain scores do not meet the CELDT criterion for English proficiency, or (b) if the results on the Student Performance Level Report indicate that the student has met the CELDT criterion for English proficiency, the LEA’s Policy/Procedures for Reclassification and documentation that was used to determine the student’s EL status consistent with the LEA policy. If a student in the sample received his or her EL designation while enrolled at a prior LEA or transferred to another LEA, the LEA may obtain the documentation from the LEA the student transferred from or to, or another student may be selected for the sample.

Condition

Auditor selected 1 student who was classified as EL only, but all records provided by the school showed that the student should have been reclassified in 2013. The extrapolated error rate is 2.33, rounded to 3 for purposes of questioned cost calculation.

Questioned Costs

The total questioned costs are (\$1,514).

Context

The condition was identified during normal testing of students eligible under the different areas of the LCFF UPC. The School was able to provide appropriate backup for all but 1 student.

Effect

The unduplicated pupil count was overstated. The only way to resolve this issue, after recertification date, is through an audit finding.

Cause

The school enrolled the student and initially classified them as proficient in English. The School did not realize the student had not been reclassified appropriately in 2013.

Recommendation

We recommend the School create processes ensure that each student it is reporting as unduplicated through the CALPADS 1.18 report has appropriate backup for the category they are being reported under. If a student does not have backup, we recommend the school remove them from the report, if able, and attempt to gather appropriate backup before recertifying.

New Designs Charter Schools
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2019

LEA Response

One of the students was reclassified on 5/23/2013 by LAUSD. For some reason the school years from kindergarten to 5th grade do not appear on CALPADS. The CALPADS record begins with the student in 6th grade at New Designs. That would include the EL status with start date and the RFEP date postings. As with some other cases, there are two SSIDs for this particular student. The skid's have not signaled a request to merge the SSIDs which usually happens at some point within CALPADS. With the current SSID used by New Designs, the student is reclassified in 2018. The other SSID shows the reclassification in 2013. We have no idea why the new SSID was claimed for the child. Those errors do happen, but there is recourse for that in merging the SSIDs.

CALPADS began to be slowly implemented and counting towards official records somewhere around 2009. In its early stages, EL records were maintained and classified as a logging field, which means that every year, each school was to add a recurring EL or RFEP record, etc. Without knowing the exact year, perhaps around 2014, CALPADS changed the way EL records were to be stored and no longer required and annual EL status record to be added. This led to a mass clean up for every school and for every student; as a matter of fact, there was at least one year during the transition that CALPADS did not pull EL counts for that very reason. That being said, all schools had a large window spanning across multiple years where EL records were being cleaned and modified leading to the schools now working together to only keep one IFEP record or one EL record, and one RFEP record. As a natural occurrence, some schools had to ask other schools to change record dates and status records to align with the school with a paper trail. Between the years of 2013 and 2017, the LAUSD EL department (and even until this day) periodically send emails asking us to adjust our EL records because they recently added their legacy system records from approximately 2005 onwards. For many years now whenever LAUSD finds new records they update CALPADS and this causes a ripple effect for other schools.

During the 18-19 year, the CALPADS ODS 1.18 report was pulled and initially included one of the students as an EL student in January of 2019. However, after some process, the LAUSD IFEP record was recognized and subsequently the EL and RFEP data New Designs held for the student was updated or deleted to reflect LAUSD's superseding record and the primary record. We pulled the 1.18 report for 2018-19 again in August 2019 and it does not include this student since that correction was made. This means that he is not included in the UPC for 2018-19.

New Designs Charter Schools
Schedule of Prior Year Audit Findings
Year Ended June 30, 2019

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