

AUDIT REPORT



FOR THE YEAR ENDED
JUNE 30, 2017

A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA PUBLIC CHARTER SCHOOLS

Da Vinci Design (Charter No. 1081)
Da Vinci Science (Charter No. 1060)
Da Vinci Innovation Academy (Charter No. 1597)
Da Vinci Communications High (Charter No. 1689)

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

DA VINCI SCHOOLS
TABLE OF CONTENTS
JUNE 30, 2017

FINANCIAL SECTION

Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6

SUPPLEMENTARY INFORMATION SECTION

Statements by Charter	
Statement of Financial Position by Charter	16
Statement of Activities by Charter.....	17
Statement of Cash Flows by Charter	18
Charter Organizational Structure	19
Consolidated Statement of Functional Expenses.....	20
Schedule of Average Daily Attendance	21
Schedule of Instructional Time.....	22
Reconciliation of Financial Report – Alternative Form with Audited Financial Statements.....	23
Notes to the Supplementary Information	24

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	25
Report on State Compliance	27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	29
Financial Statement Findings.....	30
State Award Findings and Questioned Costs	31
Summary Schedule of Prior Audit Findings and Questioned Costs.....	34

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Da Vinci Schools
El Segundo, California

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Report on the Financial Statements

We have audited the accompanying financial statements of Da Vinci Schools (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of 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 Da Vinci Schools as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Da Vinci Schools taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the Organization's internal control over financial reporting and compliance.



San Diego, California
December 4, 2017

DA VINCI SCHOOLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 6,134,558
Accounts receivable	1,666,184
Prepaid expenses	9,677
Total current assets	<u>7,810,419</u>

Capital assets

Property and equipment	484,829
Less accumulated depreciation	<u>(323,826)</u>
Total capital assets, net	161,003
Total Assets	<u>\$ 7,971,422</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 2,688,282
Deferred revenue	<u>199,962</u>
Total liabilities	<u>2,888,244</u>

Net assets

Unrestricted	3,966,247
Temporarily restricted	<u>1,116,931</u>
Total net assets	5,083,178
Total Liabilities and Net Assets	<u>\$ 7,971,422</u>

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

DA VINCI SCHOOLS
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 12,185,453	\$ -	\$ 12,185,453
Federal revenues	706,021	-	706,021
Other state revenues	1,876,957	225,000	2,101,957
Total federal and state support and revenues	14,768,431	225,000	14,993,431
Local support and revenues			
Payments in lieu of property taxes	2,686,865	-	2,686,865
Grants and donations	1,442,518	1,215,000	2,657,518
Investment income, net	32,037	-	32,037
Other local revenues	755,313	-	755,313
Total local support and revenues	4,916,733	1,215,000	6,131,733
Donor restrictions satisfied	606,698	(606,698)	-
Total Support and Revenues	20,291,862	833,302	21,125,164
EXPENSES			
Program services	17,200,937	-	17,200,937
Supporting services			
Management and general	2,756,780	-	2,756,780
Total Expenses	19,957,717	-	19,957,717
CHANGE IN NET ASSETS	334,145	833,302	1,167,447
Net Assets - Beginning	3,632,102	283,629	3,915,731
Net Assets - Ending	\$ 3,966,247	\$ 1,116,931	\$ 5,083,178

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

DA VINCI SCHOOLS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,167,447
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	66,112
(Increase) decrease in operating assets	
Accounts receivable	(1,034,027)
Prepaid expenses	(6,844)
Increase (decrease) in operating liabilities	
Accounts payable	1,389,284
Deferred revenue	197,819
Net cash provided by (used in) operating activities	<u>1,779,791</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	<u>(30,696)</u>
Net cash provided by (used in) investing activities	<u>(30,696)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,749,095
Cash and cash equivalents - Beginning	<u>4,385,463</u>
Cash and cash equivalents - Ending	<u>\$ 6,134,558</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid on interest	<u>\$ 2,466</u>

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

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Da Vinci Schools (the “Organization”), located in Los Angeles County, was formed as a nonprofit public benefit corporation in the State of California on September 10, 2008 under the name Wiseburn 21st Century Charter Schools. In March 2013, the Organization changed its name and began operating as Da Vinci Schools. The main purpose of the Organization is to manage public charter schools: Da Vinci Design, Da Vinci Science, Da Vinci Innovation Academy, and Da Vinci Communications High; known collectively as the Da Vinci Schools (the “Charters”).

Da Vinci Science (formally called STEM Project Center) was approved by the State Board of Education on January 8, 2009 under California Charter No. 1081. Da Vinci Design was approved on May 7, 2009 under California Charter No. 1060. Classes began in August 2009 for Da Vinci Science and Da Vinci Design. Da Vinci Innovation began its first year of operation in 2013-14 after approval on September 4, 2013 under California Charter No. 1597. In 2014-15, Da Vinci Communications High began operations following approval on September 3, 2014 as California Charter No. 1689.

Wiseburn Unified School District (the “authorizing agency” or the “District”) is the authorizing agency for all four charter schools operated by the Organization. The Charters are authorized to instruct grades K-12. Da Vinci Science, Da Vinci Design, and Da Vinci Communications High currently serve students in grades 9-12 and Da Vinci Innovations Academy offers non-classroom based instruction to grades K-8. Funding sources consist of state apportionments, grants and donations from the public.

In November 2016, articles of incorporation were filed to establish a limited liability company under the name RISE Charter School, LLC (the “LLC”) whereby the Organization is the sole-member of the LLC. As such, the LLC is deemed a “disregarded entity” and its financial information is consolidated with the Organization. The purpose of the LLC is to operate RISE High, California Charter No. 1865, beginning July 2017.

The mission of Da Vinci Schools is to provide students with rigorous and relevant academic and workplace skills, preparing its graduates for rewarding lives in our increasingly technological society. The specific goals of the Charters are to successfully integrate technical and academic education into a school that prepares students for post-secondary education and for leadership in the high technology industry; to increase the number of underrepresented students in math and engineering who succeed in high school and post-secondary education and who become productive members and leaders in the South Bay and Los Angeles area high technology industry; and to provide all of the Charters’ students with an extraordinary education that prepares them to be thoughtful, engaging citizens in our increasingly technological society.

B. Principles of Consolidation

The accompanying financial statements include the accounts of the Organization and the LLC. Intercompany accounts and transactions have been eliminated in consolidation.

C. Basis of Accounting

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

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Financial Statement Presentation

Da Vinci Schools is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management's discretion in carrying out the activities of the organization in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support operations. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Organization's financial statement presentation.

E. Estimates

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

F. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

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

G. In Lieu of Property Taxes Revenue

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

H. Functional Expenses

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

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Cash and Investments

Da Vinci Schools considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents. The Organization's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities.

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Organization establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2017, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. Capital Assets

Da Vinci Schools has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or is requiring the Organization to hold the asset for a specified period of time. Capital assets are depreciated using the straight-line method. Building improvements are depreciated over ten years, furniture is depreciated over seven years, vehicles are depreciated over five years, and equipment and software are depreciated over three years.

L. Deferred Revenue

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

M. Income Taxes

Da Vinci Schools is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a charitable corporation organized and operated primarily as an educational institution, the Organization is not required to register with the California Attorney General as a charity.

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

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

O. New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2017, consist of the following:

Cash in county treasury	\$ 4,042,210
Cash in banks, non-interest bearing	1,338,877
Cash in banks, interest bearing	748,177
Cash awaiting deposit	5,294
Total Cash and Cash Equivalents	<u>\$ 6,134,558</u>

Cash in Banks

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. Da Vinci Schools does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2017, \$1,495,149 of the Organization's bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in an account at Wells Fargo Bank.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in County Treasury

Policies and Practices

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Organization has managed its exposure to interest rate risk by investing in the County Treasury. The Organization's investments in the Los Angeles County Investment Pool, which combines the Charters' shares of the portfolio, has a combined fair value of \$4,018,147 and an amortized book value of \$4,042,210 as of June 30, 2017.

General Authorizations

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

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

Fair Value Measurement

Investments in the Los Angeles County Treasury Investment Pool are not measured using the input levels described in Note 1N because the Charters' transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consists of the following:

Federal sources	\$	191,872
State sources (non-LCFF)		361,127
Due from authorizing agency		936,865
Interest receivable		16,570
Other local sources		159,750
Total Accounts Receivable	\$	1,666,184

NOTE 4 – CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2017 is as follows:

	Balance			Balance	
	July 1, 2016	Additions	Disposals	June 30, 2017	
Property and equipment					
Building improvements	\$ 5,880	\$ -	\$ -	\$ 5,880	
Furniture and equipment	448,253	30,696	-	478,949	
Total property and equipment	454,133	30,696	-	484,829	
Less: accumulated depreciation	(257,714)	(66,112)	-	(323,826)	
Capital Assets, net	\$ 196,419	\$ (35,416)	\$ -	\$ 161,003	

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2017, consists of the following:

Salaries and benefits payable	\$	947,417
Due to authorizing agency		472,170
Due to grantor governments		172,509
Vendor payables		1,096,186
Total Accounts Payable	\$	2,688,282

NOTE 6 – DEFERRED REVENUE

Deferred revenue consists of \$199,962 in State funding for the Career Technical Education Incentive Grant that was received but not yet earned as of June 30, 2017.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 7 – NET ASSETS

During the fiscal year ended June 30, 2017, RISE Charter School, LLC entered into the XQ Super School Approved Grant Entity Grant Agreement and received restricted funding from XQ Institute, an unrelated nonprofit public benefit corporation. A total of \$1,215,000 was received from this funding source and \$729,009 remained unspent and within temporarily restricted net assets as of June 30, 2017.

Excluding the LLC ending net assets noted above, total remaining net assets at June 30, 2017 were designated for the following purposes:

	Da Vinci Design	Da Vinci Science	Da Vinci Innovations Academy	Da Vinci Communications High	Total
Temporarily restricted net assets					
Northrop/Cal Poly Program	\$ -	\$ 83,045	\$ -	\$ -	\$ 83,045
State imposed restrictions					
College Readiness Block Grant	52,494	47,927	-	53,491	153,912
California Clean Energy Jobs Act	54,535	54,173	-	-	108,708
Educator Effectiveness Program	17,194	23,764	-	1,299	42,257
Total temporarily restricted net assets	124,223	208,909	-	54,790	387,922
Unrestricted net assets					
Net investment in capital assets	65,734	37,913	18,428	27,318	149,393
Board designated					
One time money	-	-	234,792	-	234,792
Increase in facilities cost	250,000	250,000	45,000	65,000	610,000
STRS increase	258,000	257,000	61,000	104,000	680,000
Total board designated	573,734	544,913	359,220	196,318	1,674,185
Undesignated	1,106,749	1,010,050	136,031	39,232	2,292,062
Total unrestricted net assets	1,680,483	1,554,963	495,251	235,550	3,966,247
Total Net Assets	\$ 1,804,706	\$ 1,763,872	\$ 495,251	\$ 290,340	\$ 4,354,169

NOTE 8 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Da Vinci Schools in an effort to advance the Charters' programs and objectives. These services have not been recorded in the Organization's financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 9 – RELATED PARTY TRANSACTIONS

Inter-Agency Activity

Receivables and payables due between the separate operating units of the Organization are classified as due to/due from related entities within the Statement of Financial Position by Charter. Inter-agency transactions and balances are eliminated in the consolidated financial statements of Da Vinci Schools to better reflect the true activities of the corporation.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

Inter-Agency Activity (continued)

Charter School Operations

In 2013-14, the Organization began accounting for a separate operating unit for charter management. The purpose was to separate the activity associated with management services and facility maintenance for the supported charter schools. The charter management unit provides business office support, professional development, and other services to support Da Vinci Science, Da Vinci Design, Da Vinci Innovation Academy, and Da Vinci Communications.

Sole Member LLC

As mentioned in Note 1A, the Organization established RISE Charter School, LLC in November 2016 and serves as the sole member of the LLC. As such, activity from the LLC is included in the Statement of Financial Position by Charter and interagency transactions are also eliminated for purposes of consolidation.

During the fiscal year ended June 30, 2017, the LLC recognized \$402,515 in expenses that were reimbursements to the Charters for consultants as well as materials and supplies. In turn, the Charters recorded the reimbursement payments received from the LLC as local revenue totaling \$402,515. This amount is noted as an elimination from both revenues and expenses on the Statement of Activities by Charter.

Authorizing Agency

The Organization makes payments to the Wiseburn Unified School District for financial support, to provide business services such as human resources, attendance accounting and payroll services, in addition to fees and services for administrative oversight as the authorizing agency. In accordance with *California Education Code 4713(b)*, the authorizing agency may charge actual costs of oversight not to exceed 3% of revenue from local control funding formula sources if the authorizing agency also provides substantially free facilities; Wiseburn Unified School District provides such facilities. Total fees paid to the District for oversight and facility usage amounted to \$323,498 and total payments for back office support amounted to \$148,672 for the fiscal year ending June 30, 2017.

During the fiscal year ended June 30, 2017, the Organization entered into agreement with the Wiseburn Unified School District for personnel services. The agreement covers salaries and benefits for three employees who receive reportable compensation issued under the Wiseburn Unified School District though they provide their compensated services to the Charters and in consideration for their services, the Organization reimburses the authorizing agency based on the actual salaries and benefits paid to the three employees covered by the agreement. Additionally, the Organization pays the salary of one employee whose compensated services are to the Wiseburn District. In turn, the District reimburses the Organization for this employee's time and effort.

Receivables and payables due between the Organization and the District, if any, are classified as due to/from authorizing agency within Notes 3 and 5. The amount due from the authorizing agency is attributed to in-lieu property tax revenue amounts due to the authorizing agency are attributed to fees for oversight/back office support.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and all other employees are covered under an alternative plan. As established by federal law, all public-sector employees who are not members of their employer's existing retirement plan (CalSTRS) must be covered by social security or an alternative plan. The Organization uses social security as their alternative plan.

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 10.25% or 9.205% of their 2016-17 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2016-17	\$ 983,381	100%
2015-16	\$ 743,855	100%
2014-15	\$ 530,756	100%

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for Da Vinci Schools is estimated at \$402,909, which is computed as the proportionate share of total 2015-16 State on-behalf contributions. The amount has been proportionately allocated to each charter school based on 2016-17 contributions to CalSTRS.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Joint Powers Agency (JPA)

During the year ended June 30, 2017, Da Vinci Schools participated in a joint venture with the CharterSafe, formerly operated as California Charter Schools Joint Powers Authority (CCSA). CharterSafe arranges for insurance coverage related to property, general liability, automobile, worker's compensation, and other miscellaneous liability coverage specific to operation of a charter school. The relationship between the Organization and the JPA is such that the JPA is not financially inter-related to the Organization for financial reporting purposes.

Facilities Use Agreement

The Organization has full and exclusive use of the District-owned facility located at 13500 Aviation Boulevard in Hawthorne, California, for operation of the Da Vinci Science and Da Vinci Innovation Academy charter schools. Da Vinci Design and Da Vinci Communications High are also in agreement with the District for a District-owned facility located at 12495 and 12501 South Isis Avenue. The facilities were utilized by the Charters' for instructional services in order to meet the educational goals established by the Organization. See Note 9 for total payments to the District as the authorizing agency.

Outstanding Construction Commitments

In November 2014, the State Allocation Board (SAB) for the Office of Public School Construction reviewed requests for preliminary apportionment for Da Vinci Design and Da Vinci Science. Under the Charter School Facility Program, the Organization received State funding of approximately \$52.7 million to cover half the cost of a charter school facility construction project. The Organization is required to match the State grant to fund the remaining cost of the project. The Organization has partnered with the Wiseburn Unified School District to fiscally manage the funds as well as oversee and manage the approved SAB construction project.

Multi-employer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Charters' voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Charters to make payments to the plan, which would approximate the Charters' proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Charters' share of withdrawal liability is approximately \$10,704,668 as of June 30, 2016. The Charters do not currently intend to withdraw from CalSTRS. Refer to Note 10 for additional information on employee retirement plans.

NOTE 12 – SUBSEQUENT EVENTS

Da Vinci Schools has evaluated subsequent events for the period from June 30, 2017 through December 4, 2017, the date the financial statements were available to be issued. The purpose of the RISE Charter School, LLC is to operate RISE High, a California Charter No. 1865, that is authorized by the Wiseburn Unified School District. The charter school began its first year of school operations in July 2017. Management did not identify any other events or transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

DA VINCI SCHOOLS
STATEMENT OF FINANCIAL POSITION BY CHARTER
JUNE 30, 2017

	California Public Charter Schools							
	No. 1081	No. 1060	No. 1597	No. 1689				
	Charter Management	Da Vinci Design	Da Vinci Science	Da Vinci Innovation Academy	Da Vinci Communications High	RISE Charter School, LLC	Inter-Agency Eliminations	Consolidated Total
ASSETS								
Current assets								
Cash and cash equivalents	\$ 1,345,011	\$ 314,456	\$ 3,615,104	\$ 74,221	\$ 43,723	\$ 742,043	\$ -	\$ 6,134,558
Accounts receivable	64,521	307,497	1,047,082	100,296	146,788	-	-	1,666,184
Due from related entity	1,519,586	1,893,130	12,051	457,348	414,141	-	(4,296,256)	-
Prepaid expenses	2,000	1,735	1,735	1,446	1,868	893	-	9,677
Total current assets	2,931,118	2,516,818	4,675,972	633,311	606,520	742,936	(4,296,256)	7,810,419
Capital assets								
Property and equipment	-	152,062	232,938	42,653	45,426	11,750	-	484,829
Less accumulated depreciation	-	(86,328)	(195,025)	(24,225)	(18,108)	(140)	-	(323,826)
Capital assets, net	-	65,734	37,913	18,428	27,318	11,610	-	161,003
Total Assets	\$ 2,931,118	\$ 2,582,552	\$ 4,713,885	\$ 651,739	\$ 633,838	\$ 754,546	\$ (4,296,256)	\$ 7,971,422
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 167,762	\$ 546,187	\$ 1,460,861	\$ 156,488	\$ 343,498	\$ 13,486	\$ -	\$ 2,688,282
Due to related entity	2,763,356	31,697	1,489,152	-	-	12,051	(4,296,256)	-
Deferred revenue	-	199,962	-	-	-	-	-	199,962
Total liabilities	2,931,118	777,846	2,950,013	156,488	343,498	25,537	(4,296,256)	2,888,244
Net assets								
Unrestricted	-	1,680,483	1,554,963	495,251	235,550	-	-	3,966,247
Temporarily restricted	-	124,223	208,909	-	54,790	729,009	-	1,116,931
Total net assets	-	1,804,706	1,763,872	495,251	290,340	729,009	-	5,083,178
Total Liabilities and Net Assets	\$ 2,931,118	\$ 2,582,552	\$ 4,713,885	\$ 651,739	\$ 633,838	\$ 754,546	\$ (4,296,256)	\$ 7,971,422

See accompanying note to supplementary information.

DA VINCI SCHOOLS
STATEMENT OF ACTIVITIES BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2017

	California Public Charter Schools						
	No. 1081	No. 1060	No. 1597	No. 1689			
			Da Vinci	Da Vinci	RISE		
	Da Vinci	Da Vinci	Innovation	Communications	Charter School,	Inter-Agency	Consolidated
	Design	Science	Academy	High	LLC	Eliminations	Total
UNRESTRICTED SUPPORT AND REVENUES							
Federal and state support and revenues							
Local control funding formula, state aid	\$ 4,253,276	\$ 3,932,827	\$ 2,052,608	\$ 1,946,742	\$ -	\$ -	\$ 12,185,453
Federal revenues	235,679	196,632	56,424	217,286	-	-	706,021
Other state revenues	584,477	629,570	354,637	308,273	-	-	1,876,957
Total federal and state support and revenues	5,073,432	4,759,029	2,463,669	2,472,301	-	-	14,768,431
Local support and revenues							
Payments in lieu of property taxes	889,563	824,047	562,904	410,351	-	-	2,686,865
Grants and donations	357,073	608,344	56,412	420,689	-	-	1,442,518
Investment income, net	4,379	27,098	171	184	205	-	32,037
Other local revenues	274,005	692,689	56,549	134,585	-	(402,515)	755,313
Total local support and revenues	1,525,020	2,152,178	676,036	965,809	205	(402,515)	4,916,733
Donor restrictions satisfied	28,007	59,193	98	33,409	485,991	-	606,698
Total Unrestricted Support and Revenues	6,626,459	6,970,400	3,139,803	3,471,519	486,196	(402,515)	20,291,862
EXPENSES							
Program services	4,879,191	6,351,382	2,755,981	3,130,702	486,196	(402,515)	17,200,937
Supporting services							
Management and general	1,473,224	600,556	366,498	316,502	-	-	2,756,780
Fundraising	-	-	-	-	-	-	-
Total Expenses	6,352,415	6,951,938	3,122,479	3,447,204	486,196	(402,515)	19,957,717
Increase (decrease) in Unrestricted							
Net Assets	274,044	18,462	17,324	24,315	-	-	334,145
RESTRICTED SUPPORT AND REVENUES							
Other state revenues	75,000	75,000	-	75,000	-	-	225,000
Grants and donations	-	-	-	-	1,215,000	-	1,215,000
Donor restrictions released	(28,007)	(59,193)	(98)	(33,409)	(485,991)	-	(606,698)
Total Restricted Support and Revenues	46,993	15,807	(98)	41,591	729,009	-	833,302
Increase (decrease) in Temporarily Restricted							
Net Assets	46,993	15,807	(98)	41,591	729,009	-	833,302
CHANGE IN NET ASSETS	321,037	34,269	17,226	65,906	729,009	-	1,167,447
Net Assets - Beginning	1,483,669	1,729,603	478,025	224,434	-	-	3,915,731
Net Assets - Ending	\$ 1,804,706	\$ 1,763,872	\$ 495,251	\$ 290,340	\$ 729,009	\$ -	\$ 5,083,178

See accompanying note to supplementary information.

DA VINCI SCHOOLS
STATEMENT OF CASH FLOWS BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2017

	<i>California Public Charter Schools</i>							
	No. 1081	No. 1060	No. 1597	No. 1689	RISE			
	Charter Management	Da Vinci Design	Da Vinci Science	Da Vinci Innovation Academy	Da Vinci Communications High	Charter School, LLC	Inter-Agency Eliminations	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Change in net assets	\$ -	\$ 321,037	\$ 34,269	\$ 17,226	\$ 65,906	\$ 729,009	\$ -	\$ 1,167,447
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities								
Depreciation	-	30,223	19,366	8,373	8,010	140	-	66,112
(Increase) decrease in operating assets								
Accounts receivable	(64,521)	(91,094)	(868,213)	(7,303)	(2,896)	-	-	(1,034,027)
Due from related entity	(1,234,565)	(1,883,130)	(12,051)	(61,285)	(347,237)	-	3,538,268	-
Prepaid expenses	(2,000)	(972)	335	(1,446)	(1,868)	(893)	-	(6,844)
Increase (decrease) in operating liabilities								
Accounts payable	(120,910)	99,521	949,145	123,392	324,650	13,486	-	1,389,284
Due to related entity	2,290,389	(78,801)	1,314,629	-	-	12,051	(3,538,268)	-
Deferred revenue	-	199,962	(2,143)	-	-	-	-	197,819
Net cash provided by (used in) operating activities	868,393	(1,403,254)	1,435,337	78,957	46,565	753,793	-	1,779,791
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of capital assets	-	(5,684)	(5,684)	(4,736)	(2,842)	(11,750)	-	(30,696)
Net cash provided by (used in) investing activities	-	(5,684)	(5,684)	(4,736)	(2,842)	(11,750)	-	(30,696)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	868,393	(1,408,938)	1,429,653	74,221	43,723	742,043	-	1,749,095
Cash and cash equivalents - Beginning	476,618	1,723,394	2,185,451	-	-	-	-	4,385,463
Cash and cash equivalents - Ending	\$ 1,345,011	\$ 314,456	\$ 3,615,104	\$ 74,221	\$ 43,723	\$ 742,043	\$ -	\$ 6,134,558

See accompanying note to supplementary information.

DA VINCI SCHOOLS
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2017

During 2016-17, Da Vinci Schools, a California non-profit public benefit corporation, operated four state board approved charter schools (the "Charters"). The Charters are located in Los Angeles County and are all sponsored by the Wiseburn Unified School District, the authorizing agency. Information on each of the Charters is as follows:

Charter School	Classes Began	Grades Served	Charter Number
Da Vinci Design	8/18/2009	9 - 12	1081
Da Vinci Science	8/17/2009	9 - 12	1060
Da Vinci Innovation Academy	8/19/2013	K - 8	1597
Da Vinci Communications High	8/12/2014	9 - 12	1689
RISE High	*	9 - 12	1865

**Not yet in operation as of June 30, 2017*

The Charters are governed by the following Board of Trustees of the Organization and managed by the following administration:

BOARD OF TRUSTEES

Name	Office	Term Expiration
Mr. Chet Pipkin	President	September 2017
Dr. Donald Brann	Vice President	September 2017
Mr. Brian Meath	Treasurer	June 2019
Mrs. Jennifer Morgan	Secretary	June 2019
Mr. Art Lofton	Trustee	July 2018
Mr. Israel Mora	Trustee	February 2019
Mr. Roger Bañuelos	Trustee	January 2019

ADMINISTRATION

Dr. Matthew Wunder
Chief Executive Officer

Dr. Chris Jones
Chief Operating Officer

Mr. Tom Cox
Chief Financial Officer

Ms. Yolanda Saldana-Bautista
Director, Employee Support Services

Mr. Steve Rabas
Director, Fiscal Services

Ms. Carla Levenson
Director, External Relations

See accompanying note to supplementary information.

DA VINCI SCHOOLS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services						Supporting	Total
	Da Vinci Design	Da Vinci Science	Da Vinci Innovations Academy	Da Vinci Communications High	RISE Charter School, LLC	Total	Services Management and General	
EXPENSES								
Personnel expenses								
Certificated salaries	\$ 2,099,001	\$ 2,834,937	\$ 1,348,616	\$ 1,237,945	\$ -	\$ 7,520,499	\$ 497,348	\$ 8,017,847
Classified salaries	100	85,554	92,613	87,934	-	266,201	1,761,212	2,027,413
Employee benefits	767,953	888,054	457,096	392,490	-	2,505,593	222,019	2,727,612
Total personnel expenses	2,867,054	3,808,545	1,898,325	1,718,369	-	10,292,293	2,480,579	12,772,872
Non-personnel expenses								
Books and supplies	895,325	1,136,705	107,217	846,032	21,524	3,006,803	49,803	3,056,606
Insurance	21,392	32,596	24,938	13,770	-	92,696	20,716	113,412
Depreciation	19,418	16,576	8,122	6,756	140	51,012	15,100	66,112
Payments to authorizing agency	102,795	95,120	78,463	47,120	-	323,498	-	323,498
Services and other operating	973,207	1,261,840	638,916	498,655	62,017	3,434,635	190,582	3,625,217
Total non-personnel expenses	2,012,137	2,542,837	857,656	1,412,333	83,681	6,908,644	276,201	7,184,845
Total Expenses	\$ 4,879,191	\$ 6,351,382	\$ 2,755,981	\$ 3,130,702	\$ 83,681	\$ 17,200,937	\$ 2,756,780	\$ 19,957,717

See accompanying note to supplementary information.

DA VINCI SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2017

	Classroom-Based			Nonclassroom-Based	
	Second Period	Annual Report		Second Period	Annual Report
	Report			Report	Annual Report
Da Vinci Design:			Da Vinci Design:		
Regular ADA			Regular ADA		
Grades 9 - 12	505.86	505.03	Grades 9 - 12	49.31	48.88
Special education			Special education		
Grades 9 - 12	3.28	3.25	Grades 9 - 12	-	-
Total Average Daily Attendance -			Total Average Daily Attendance -		
Classroom-Based	509.14	508.28	Nonclassroom-Based	49.31	48.88
Da Vinci Science:			Da Vinci Science:		
Regular ADA			Regular ADA		
Grades 9 - 12	493.19	491.88	Grades 9 - 12	22.31	23.31
Special education			Special education		
Grades 9 - 12	1.82	1.85	Grades 9 - 12	-	-
Total Average Daily Attendance -			Total Average Daily Attendance -		
Classroom-Based	495.01	493.73	Nonclassroom-Based	22.31	23.31
Da Vinci Communications High:			Da Vinci Innovation Academy:		
Regular ADA			Regular ADA		
Grades 9 - 12	254.70	253.28	Grades K - 3	172.91	170.78
Special education			Grades 4 - 6	122.59	121.49
Grades 9 - 12	2.91	2.66	Grades 7 - 8	57.46	57.48
Total Average Daily Attendance -			Total Average Daily Attendance -		
Classroom-Based	257.61	255.94	Nonclassroom-Based	352.96	349.75
Da Vinci Innovation Academy:					
Special education					
Grades 4 - 6	0.42	0.56			
Total Average Daily Attendance -					
Classroom-Based	0.42	0.56			

Da Vinci Communications High did not report nonclassroom-based average daily attendance during 2016-17.

See accompanying note to supplementary information.

**DA VINCI SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Span	Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
Da Vinci Design:				
Grades 9 - 12	64,800	67,310	175	Complied
Da Vinci Science:				
Grades 9 - 12	64,800	70,620	175	Complied
Da Vinci Communications High:				
Grades 9 - 12	64,800	67,695	175	Complied

Da Vinci Innovation Academy did not report regular ADA for classroom-based instruction. Instruction related to special education classroom-based ADA for grade span 4 – 6 was provided via nonpublic schools; therefore, no instructional time is noted above for Da Vinci Innovation Academy.

DA VINCI SCHOOLS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Da Vinci Innovation Academy</u>
June 30, 2017, fund balance per alternative form	<u>\$ 515,251</u>
Adjustments:	
Increase (decrease) in total net assets:	
Understated special education expense and payable	<u>(20,000)</u>
June 30, 2017, net assets per audited financial statements	<u>\$ 495,251</u>

There were no adjustments made to reconcile the fund balance reported on the Financial Report – Alternative Forms to net assets per the audited financial statements for the year ended June 30, 2017 for the following charter schools:

Da Vinci Design (Charter No. 1081)
Da Vinci Science (Charter No. 1060)
Da Vinci Communications High (Charter No. 1689)

DA VINCI SCHOOLS
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

A. Statements by Charter

Da Vinci Schools statements of financial position, activities, and cash flows by charter provide information supporting the amounts incorporated in the Organization's financial statements. In addition, to all California public charter schools, all other operating units of the Organization are also included.

B. Charter Organizational Structure

This schedule provides information about the charter schools' authorizing agency, grades served, members of the governing body, and members of the administration.

C. Consolidated Statement of Functional Expenses

The consolidated statement of functional expenses reports information about expenses by their functional classes, such as major classes of program services and supporting activities, as well as information about expenses by their natural classification (such as salaries and benefits, books and supplies and other services and operating expenses) in a matrix format. The statement is only required for health and welfare entities; however, the Organization has included in order to provide additional information about expenses and their natural classification. The presentation is on a consolidated basis and does not include expenses noted as eliminations on the Statement of Activities by Charter.

D. Schedule of Average Daily Attendance (ADA)

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

E. Schedule of Instructional Time

Da Vinci Schools receives, as part of their local control funding formula sources, incentive funding for maintaining instructional time. This schedule presents information on the amount of instructional time offered by the Charters and whether each charter school complied with the provisions of *Education Code Section 46200* through 46208.

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

**OTHER INDEPENDENT AUDITORS'
REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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State Board of Accountancy

To the Board of Trustees of
Da Vinci Schools
El Segundo, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Da Vinci Schools (the "Organization") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated December 4, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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.



San Diego, California
December 4, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Trustees of
Da Vinci Schools
El Segundo, California

Report on State Compliance

We have audited Da Vinci Schools' compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Da Vinci Schools' state programs for the fiscal year ended June 30, 2017, as identified below. Reference to Da Vinci Schools within this letter is inclusive of Da Vinci Design, Da Vinci Science, Da Vinci Innovation Academy, and Da Vinci Communications High.

Management's Responsibility

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 of Da Vinci Schools' state 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards 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 the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Da Vinci 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 with the requirements referred to above. However, our audit does not provide a legal determination of Da Vinci Schools' compliance with those requirements.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Opinion on State Compliance

In our opinion, Da Vinci Schools complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001. Our opinion on state compliance is not modified with respect to this matter.

Da Vinci Schools' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Da Vinci Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

Description	Da Vinci Design & Da Vinci Science	Da Vinci Communications High	Da Vinci Innovations Academy
	Procedures Performed		
School Districts, County Offices of Education, and Charter Schools			
Educator Effectiveness	Yes	Not applicable	Yes
California Clean Energy Jobs Act	No	No	No
After School Education and Safety Program:	Not applicable	Not applicable	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes	Yes	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes	Yes	Yes
Local Control and Accountability Plan	Yes	Yes	Yes
Independent Study – Course Based	Not applicable	Not applicable	Not applicable
Immunizations	Yes	Yes	Yes
Charter Schools			
Attendance	Yes	Yes	Yes
Mode of Instruction	Yes	Yes	No
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Yes	Not applicable	Yes
Determination of Funding for Nonclassroom-Based Instruction	Not applicable	Not applicable	Yes
Annual Instructional Minutes – Classroom Based	Yes	Yes	No
Charter School Facility Grant Program	Not applicable	Not applicable	Not applicable

We did not perform procedures over the California Clean Energy Jobs Act for each school because no program funding has been expended as of June 30, 2017. We did not perform procedures for Mode of Instruction and Annual Instructional Minutes – Classroom Based for Da Vinci Innovation Academy because ADA was not material and instruction was provided via nonpublic schools.

Christy White Associates

San Diego, California
December 4, 2017

**FINDINGS AND QUESTIONED COSTS
SECTION**

DA VINCI SCHOOLS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Statements

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

Federal Awards

*The Organization did not spend \$750,000 or more in federal awards;
therefore, a Single Audit under OMB Uniform Grant Guidance is not
applicable.*

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

DA VINCI SCHOOLS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2017.

**DA VINCI SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

FINDING 2017-001: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNT (40000)

Criteria: Students classified as Free and Reduced Price Meal (FRPM) eligible and/or English Learners (EL), who are not directly certified on the CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report must have supporting documentation that indicates the student was eligible for this designation. The unduplicated local control funding formula pupil count affects the percentage used as data in calculating Local Control Funding Formula (LCFF) apportionment. Auditors are required to verify compliance with California Education Code Section 42238.02(b)(3)(B) in Section W of the 2016-17 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: Based on review and testing of student designations from the CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report for each charter, we noted the following:

- **Da Vinci Design:** For all students designated as EL only, we noted exceptions for five (5) of eleven (11). No documentation was provided for audit on one (1) student. Based on review of documentation within the student cumulative file for the remaining four (4) students, the assessment information indicated that the student should have been reclassified out of EL status prior to the start of the 2016-17 school year.
- **Da Vinci Science:** For all students designated as FRPM only, we noted exceptions for six (6) of 170 students. The students had been subject to the NSLP verification process and were subsequently deemed ineligible for FRPM status. The student information system had noted “paid” following the verification process yet the system field or report settings did not allow for accurate updates for CALPADS reporting purposes.
- **Da Vinci Innovations Academy:** For all students designated as EL only, we noted exceptions for one (1) of three (3). Based on review of documentation within the student cumulative file, the assessment information indicated that the student should have been reclassified out of EL status prior to the start of the 2016-17 school year.

Effect: The charter schools are not in compliance with State requirements. A total of twelve (12) students appeared to be improperly designated as EL or FRPM: five (5) for Da Vinci Design, six (6) for Da Vinci Science, and one (1) for Da Vinci Innovations Academy. Errors were based on testing of 100% of the population where the error was discovered.

DA VINCI SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2017

FINDING 2017-001: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNT (40000) (continued)

Cause: Documentation for EL designations was not adequately reviewed and updated for CALPADS reporting purposes. Input error within the student information system for tracking of student FRPM status following the verification process.

Questioned Costs: \$3,918 as calculated below by charter school:

		Da Vinci Design				Da Vinci Science				Da Vinci Innovation Academy			
UPP Audit Adjustment													
1	Total Adjusted Enrollment from the UPP exhibit as of P-2	1,642				1,587				1,031			
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2	730				679				65			
3	Audit Adjustment - Number of Enrollment	-				-				-			
4	Audit Adjustment - Number of Unduplicated Pupil Count	(5)				(6)				(1)			
5	Revised Adjusted Enrollment	1,642				1,587				1,031			
6	Revised Adjusted Unduplicated Pupil Count	725				673				64			
7	UPP calculated as of P-2	0.4446				0.4279				0.0630			
8	Revised UPP for audit finding	0.4415				0.4241				0.0621			
9	Charter Schools Only: Determinative School District Concentration Cap	0.4841				0.4841				0.4841			
10	Revised UPP adjusted for Concentration Cap	0.4415				0.4241				0.0621			
LCFF Target Supplemental Grant Funding Audit Adjustment		TK/K-3	4-6	7-8	9-12	TK/K-3	4-6	7-8	9-12	TK/K-3	4-6	7-8	9-12
9	Supplemental and Concentration Grant ADA	0.00	0.00	0.00	558.45	0.00	0.00	0.00	517.32	\$7,820	\$7,189	\$7,403	\$8,801
10	Adjusted Base Grant per ADA	\$7,820	\$7,189	\$7,403	\$8,801	\$7,820	\$7,189	\$7,403	\$8,801	\$173	\$123	\$57	\$0
11	Target Supplemental Grant Funding calculated as of P-2	\$437,035				\$389,640				\$33,542			
12	Revised Target Supplemental Grant Funding for audit finding	\$433,987				\$386,180				\$33,063			
13	Target Supplemental Grant Funding audit adjustment	(\$3,048)				(\$3,460)				(\$479)			
LCFF Target Concentration Grant Funding Audit Adjustment													
14	Target Concentration Grant Funding calculated as of P-2	\$0				\$0				\$0			
15	Revised Target Concentration Grant Funding for audit finding	\$0				\$0				\$0			
16	Target Concentration Grant Funding audit adjustment	\$0				\$0				\$0			
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target													
18	Total Target Supplemental and Concentration audit adjustment	(\$3,048)				(\$3,460)				(\$479)			
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap													
19	Statewide Gap Funding Rate as of P-2	0.5607679980				0.5607679980				0.5607679980			
20	Estimated Cost of Unduplicated Pupil Count audit adjustment	(\$1,709)				(\$1,940)				(\$269)			

DA VINCI SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2017

FINDING 2017-001: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNT (40000)
(continued)

Recommendation: We recommend that all EL students be assessed annually and reclassified based on the reclassification policy established by the charter schools for CALPADS reporting purposes of ELAS designations. The results of the assessments should be communicated to those authorized with overseeing CALPADS reporting in order to reconcile the reported data to sufficient supporting documentation. Additionally, we recommend that all FRPM eligible students be reviewed for any change in status following the NSLP verification process and ensure any changes are reflected in CALPADS. If necessary, updated information should be submitted and recertified within the amendment window.

Corrective Action Plan: Da Vinci Schools staff will continue to follow reclassification policy established by the charter schools for CALPADS reporting purposes of ELAS designations. It will work closely with the back office provider, Charter School Management Corporation, to reconcile the reported data to sufficient supporting documentation. This review will also extend to FRPM eligible students. A compliance process will be developed by Da Vinci Schools staff. Training will be led by our back office and administration to our staff. The goal will be to properly report the pupil count in CALPADS that affects the school's Local Control Funding Formula.

**DA VINCI SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING 2016-1: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA (LCFF) PUPIL COUNT (40000)

Criteria: Students classified as English Learners (EL), who are not directly certified on the CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report must have supporting documentation that indicates the student was eligible for this designation. The unduplicated local control funding formula pupil count affects the percentage used as data in calculating Local Control Funding Formula (LCFF) apportionment. In accordance with CCR §11511(1)(b), “the English language proficiency of all currently enrolled English learners shall be assessed by administering the test (CELDT) during the annual assessment window” with the “annual assessment window” beginning on July 1 and ending October 31 of each school year. Auditors are required to verify compliance with California Education Code Section 42238.02(b)(3)(B) in Section W of the 2015-16 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: Based on review and testing of student designations from the CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report for each charter, we noted the following:

- **Da Vinci Design:** For all students designated as EL, we noted exceptions for nine (9) of fourteen (14). No documentation was provided for audit on two (2) students. Based on review of documentation within the student cumulative file for the remaining seven (7) students, the assessment information indicated that the student should have been reclassified out of EL status prior to the start of the 2015-16 school year.
- **Da Vinci Science:** For all students designated as EL, we noted exceptions for one (1) of three (3). The student was receiving EL support as part of an individualized education plan; however, no indication of an annual assessment either through CELDT or alternative methods was provided for audit.
- **Da Vinci Innovations Academy:** For all students designated as EL, we noted exceptions for one (1) of three (3). There was no indication that the student’s EL status had been assessed since CELDT examination in 2013-14.
- **Da Vinci Communications High:** For all students designated as EL, we noted exceptions for four (4) of six (6) students. No documentation was provided for audit on two (2) students. There was no indication that the students’ EL status had been assessed since CELDT examination for the remaining two (2) students.

Effect: The charter schools are not in compliance with State requirements. A total of fourteen (14) students appeared to be improperly designated as EL; nine (9) for Da Vinci Design, one (1) for Da Vinci Science, one (1) for Da Vinci Innovations Academy, and four (4) for Da Vinci Communications High. Errors were based on testing of 100% of the population where the error was discovered.

DA VINCI SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2017

FINDING 2016-1: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA (LCFF) PUPIL COUNT (40000), continued

Cause: Documentation for EL designations did not support the Unduplicated Pupil Count per charter school resulting in inaccuracies.

Questioned Costs: \$5,363 as calculated below by charter school:

	Da Vinci Design		Da Vinci Science		Da Vinci Innovation Academy		Da Vinci Communications High	
	Section 1: Regular UPP	Section 2: Alternative UPP	Section 1: Regular UPP	Section 2: Alternative UPP	Section 1: Regular UPP	Section 2: Alternative UPP	Section 1: Regular UPP	Section 2: Alternative UPP
Unduplicated Pupil Percentage (UPP) Audit Adjustment								
1) Total Adjusted Enrollment from the UPP Exhibit as of P-2	1,621	1,566	1,554	1,575	932	970	339	473
2) Total Adjusted Unduplicated Count from the UPP Exhibit as of P-2	727	681	706	695	63	63	149	205
3) Number of Unduplicated Count audit adjustment		(9)		(1)		(1)		(4)
4) Revised Adjusted Unduplicated Pupil Count	718	672	705	694	62	62	145	201
5) UPP calculated at P-2	0.4485	0.4349	0.4543	0.4413	0.0676	0.0649	0.4395	0.4334
6) Revised UPP for audit finding	0.4429	0.4291	0.4537	0.4406	0.0665	0.0639	0.4277	0.4249
7) Greater of Revised UPP for audit finding from Section 1 or 2		0.4429		0.4537		0.0665		0.4277
8) Charter Schools Only: Determinative School District Concentration Cap		0.4884		0.4884		0.4884		0.4884
9) Revised UPP adjusted for Concentration Cap		0.4429		0.4537		0.0665		0.4277
LCFF Target Base Grant Funding								
10) Total Base Grant Funding as of P-2	\$ 4,507,344		\$ 4,379,906		\$ 2,590,274		\$ 1,720,331	
LCFF Target Supplemental Grant Funding Audit Adjustment								
11) Target Supplemental Grant Funding calculated as of P-2	\$ 404,309		\$ 397,958		\$ 35,021		\$ 151,217	
12) Revised Target Supplemental Grant Funding for audit finding	\$ 399,261		\$ 397,433		\$ 34,451		\$ 147,157	
13) Target Supplemental Grant Funding Audit Adjustment	\$ (5,048)		\$ (525)		\$ (570)		\$ (4,060)	
LCFF Target Concentration Grant Funding Audit Adjustment								
14) Target Concentration Grant Funding calculated as of P-2	\$ -		\$ -		\$ -		\$ -	
15) Revised Target Concentration Grant Funding for audit finding	\$ -		\$ -		\$ -		\$ -	
16) Target Concentration Grant Funding Audit Adjustment	\$ -		\$ -		\$ -		\$ -	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target								
17) Total target supplemental and concentration audit adjustment	\$ (5,048)		\$ (525)		\$ (570)		\$ (4,060)	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Floor and Cap								
18) Statewide gap funding rate	0.5255761597		0.5255761597		0.5255761597		0.5255761597	
19) Estimated value of unduplicated pupil count audit adjustment for 2015-16	\$ (2,653)		\$ (276)		\$ (300)		\$ (2,134)	\$ (5,363)

Recommendation: We recommend that all EL students be assessed annually and reclassified based on the reclassification policy established by the charter schools for CALPADS reporting purposes of ELAS designations. The results of the assessments should be communicated to those authorized with overseeing CALPADS reporting in order to reconcile the reported data to sufficient supporting documentation.

Organization's Response: All EL students are assessed annually and reclassified as needed and a system has been developed to trace CALPADS data to source back-up documents. The Organization is currently working to provide extra training to school site staff as well as developing procedures to ensure CALPADS data is properly updated. The systems will be implemented and in place beginning with the 2016-17 school year.

Current Status: Partially implemented. Refer to Finding 2017-001.