



**CONSOLIDATED
AUDIT REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2019**

**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 Connect (Charter No. 1597)
Da Vinci Communications High (Charter No. 1689)

FINANCIAL SECTION

| | |
|---|---|
| Independent Auditors' Report | 1 |
| Financial Statements | |
| Consolidated Statement of Financial Position | 3 |
| Consolidated Statement of Activities | 4 |
| Consolidated Statement of Functional Expenses | 5 |
| Consolidated Statement of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |

SUPPLEMENTARY INFORMATION SECTION

| | |
|---|----|
| Charter Organizational Structure | 19 |
| Consolidating Financial Statements | |
| Consolidating Statement of Financial Position | 20 |
| Consolidating Statement of Activities | 21 |
| Statements by Charter | |
| Statement of Financial Position by Charter | 22 |
| Statement of Activities by Charter | 23 |
| Schedule of Average Daily Attendance | 24 |
| Schedule of Instructional Time | 26 |
| Reconciliation of Financial Report – Alternative Form with Audited Financial Statements | 27 |
| Notes to the Supplementary Information | 28 |

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>Government Auditing Standards</i> | 29 |
| Report on State Compliance | 31 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

| | |
|---|----|
| Summary of Auditors' Results | 33 |
| Financial Statement Findings | 34 |
| State Award Findings and Questioned Costs | 35 |
| Summary Schedule of Prior Audit Findings and Questioned Costs | 36 |

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated 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, 2019, 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 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 Da Vinci 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 a Matter

Change in Accounting Principle

As discussed in Note 1N to the financial statements, in 2018-19 Da Vinci Schools adopted new accounting guidance, ASU No. 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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise Da Vinci Schools' basic financial statements. 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. The supplementary information listed in the table of contents 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 reissued our report dated January 8, 2020, 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 the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



San Diego, California

December 13, 2019, except for 'Other Reporting Required by Government Audit Standards' reissued January 8, 2020

DA VINCI SCHOOLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

| | |
|-------------------------------|----------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 1,973,808 |
| Accounts receivable | 4,427,480 |
| Prepaid expenses | <u>515,288</u> |
| Total current assets | <u>6,916,576</u> |
| Capital assets | |
| Property and equipment | 821,526 |
| Less accumulated depreciation | <u>(484,047)</u> |
| Total capital assets, net | <u>337,479</u> |
| Total Assets | <u>\$ 7,254,055</u> |

LIABILITIES AND NET ASSETS

| | |
|---|----------------------------|
| Liabilities | |
| Accounts payable | \$ 3,028,680 |
| Deferred revenue | <u>153,384</u> |
| Total liabilities | <u>3,182,064</u> |
| Net assets | |
| Without donor restrictions | 3,982,575 |
| With donor restrictions | <u>89,416</u> |
| Total net assets | <u>4,071,991</u> |
| Total Liabilities and Net Assets | <u>\$ 7,254,055</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, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| SUPPORT AND REVENUES | | | |
| Federal and state support and revenues | | | |
| Local control funding formula, state aid | \$ 14,323,674 | \$ - | \$ 14,323,674 |
| Federal revenues | 747,972 | - | 747,972 |
| Other state revenues | 5,039,737 | 6,371 | 5,046,108 |
| Total federal and state support and revenues | 20,111,383 | 6,371 | 20,117,754 |
| Local support and revenues | | | |
| Payments in lieu of property taxes | 4,077,810 | - | 4,077,810 |
| Grants and donations | 1,151,465 | - | 1,151,465 |
| Investment income, net | 21,608 | - | 21,608 |
| Other local revenues | 1,182,173 | - | 1,182,173 |
| Total local support and revenues | 6,433,056 | - | 6,433,056 |
| Donor restrictions satisfied | 256,845 | (256,845) | - |
| Total Support and Revenues | 26,801,284 | (250,474) | 26,550,810 |
| EXPENSES | | | |
| Program services | | | |
| Charter school operations | 24,187,909 | - | 24,187,909 |
| Supporting services | | | |
| Management and general | 2,392,472 | - | 2,392,472 |
| Total Expenses | 26,580,381 | - | 26,580,381 |
| CHANGE IN NET ASSETS | 220,903 | (250,474) | (29,571) |
| Net Assets - Beginning | 3,761,672 | 339,890 | 4,101,562 |
| Net Assets - Ending | \$ 3,982,575 | \$ 89,416 | \$ 4,071,991 |

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

DA VINCI SCHOOLS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

| | Program Services | Supporting Services | |
|--------------------------------|------------------------------|---------------------------|----------------------|
| | Charter School Operations | Management and General | Total |
| EXPENSES | | | |
| Personnel expenses | | | |
| Certificated salaries | \$ 8,897,158 | \$ 244,711 | \$ 9,141,869 |
| Classified salaries | 1,525,791 | 1,469,992 | 2,995,783 |
| Employee benefits | 5,639,918 | 161,351 | 5,801,269 |
| Total personnel expenses | 16,062,867 | 1,876,054 | 17,938,921 |
| Non-personnel expenses | | | |
| Books and supplies | 1,652,889 | 107,208 | 1,760,097 |
| Depreciation | 43,325 | 7,665 | 50,990 |
| Payments to authorizing agency | 164,509 | 27,041 | 191,550 |
| Interest expense | 11,416 | 1,809 | 13,225 |
| Services and other operating | 5,618,110 | 372,695 | 5,990,805 |
| Transfers to affiliate, net | 634,793 | - | 634,793 |
| Total non-personnel expenses | 8,125,042 | 516,418 | 8,641,460 |
| Total Expenses | \$ 24,187,909 | \$ 2,392,472 | \$ 26,580,381 |

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Change in net assets | \$ (29,571) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | |
| Depreciation | 50,990 |
| (Increase) decrease in operating assets | |
| Accounts receivable | 170,994 |
| Prepaid expenses | (470,713) |
| Increase (decrease) in operating liabilities | |
| Accounts payable | 682,066 |
| Deferred revenue | (254,741) |
| Net cash provided by (used in) operating activities | <u>149,025</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|------------------|
| Purchase of capital assets | <u>(226,165)</u> |
| Net cash provided by (used in) investing activities | <u>(226,165)</u> |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (77,140)

Cash and cash equivalents - Beginning 2,050,948

Cash and cash equivalents - Ending \$ 1,973,808

SUPPLEMENTAL DISCLOSURE

| | |
|-----------------------|------------------|
| Cash paid on interest | <u>\$ 13,225</u> |
|-----------------------|------------------|

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

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 Connect, previously Da Vinci Innovation Academy, 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.

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, which closed effective September 1, 2018.

Wiseburn Unified School District (the “authorizing agency” or the “District”) is the authorizing agency for all four (4) active 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 Connect offers nonclassroom-based instruction to grades K-8. Funding sources consist of state apportionments, grants and donations from the public.

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. Basis of Accounting

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

C. Principles of Consolidation

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018. Under the Guide, Da Vinci Schools is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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

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

As public charter schools, the Organization also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is only used to the extent that internal accounting for multiple charter school or other program operations is necessary and is not used for external 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

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

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Functional Expenses

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

H. 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. Investment return is presented net of any investment fees.

I. 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, 2019, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

J. 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 net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

K. 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.

L. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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.

N. Change in Accounting Principle

Not-for-Profit Financial Reporting Model Standard

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 implementation had no impact on the previously reported total net assets as of July 1, 2018. Under the new accounting principle, the portion of beginning net assets previously reported as unrestricted is now presented as net assets without donor restrictions and previous balances under temporarily restricted net assets are currently net assets with donor restrictions.

O. New Accounting Pronouncements

Revenue Recognition

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in FASB ASU No. 2014-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The effective dates for the new guidance are staggered. Public entities have already implemented the new guidance, and nonprofit entities are required to implement the new guidance for fiscal years beginning after December 15, 2018. The Organization will determine the impact on the financial statements once implemented for the fiscal year ending June 30, 2020.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New Accounting Pronouncements (continued)

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and is effective for public business entities for fiscal years beginning after December 15, 2018. In October 2019, FASB approved to delay effective dates for all public business entities, except for SEC filers, to fiscal years beginning after December 15, 2019. The Organization will determine the impact on the financial statements once implemented for the fiscal year ending June 30, 2021.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2019, consist of the following:

| | Da Vinci Schools | RISE Charter School, LLC | Total |
|--|---------------------|--------------------------------|---------------------|
| Cash in county treasury | \$ 1,611,916 | \$ - | \$ 1,611,916 |
| Cash in banks, non-interest bearing | 153,727 | 175,890 | 329,617 |
| Cash in banks, interest bearing | 32,275 | - | 32,275 |
| Total Cash and Cash Equivalents | \$ 1,797,918 | \$ 175,890 | \$ 1,973,808 |

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, 2019, \$266,172 of the Organization's bank balances were exposed to custodial credit risk as there were deposits over \$250,000 in accounts at one bank.

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' share of the portfolio, has a combined fair value of \$1,610,370 and an amortized book value of \$1,611,916 as of June 30, 2019. The average weighted maturity for this pool is 547 days.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

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:

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|----------------------------------|---------------------------------------|--|
| Local Agency Bonds, Notes, Warrants | 5 years | None | None |
| Registered State Bonds, Notes, Warrants | 5 years | None | None |
| U.S. Treasury Obligations/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 1M 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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consists of the following:

| | Da Vinci Schools | RISE Charter School, LLC | Total |
|--|---------------------|--------------------------------|---------------------|
| Local control funding formula, state aid | \$ 1,837 | \$ - | \$ 1,837 |
| Federal sources | 246,375 | - | 246,375 |
| Other state sources | 1,097,212 | - | 1,097,212 |
| Payments in lieu of property taxes | 964,357 | - | 964,357 |
| Due from authorizing agency | 519,798 | - | 519,798 |
| Due from affiliate* | 1,557,251 | - | 1,557,251 |
| Other local sources | 40,650 | - | 40,650 |
| Total Accounts Receivable | \$ 4,427,480 | \$ - | \$ 4,427,480 |

*Refer to Note 9 for additional information amount due from affiliate.

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS

Capital assets, net of accumulated depreciation, as of June 30, 2019 are as follows:

| | Da Vinci Schools | RISE Charter School, LLC | Total |
|--------------------------------|---------------------|--------------------------------|-------------------|
| Property and equipment | | | |
| Building improvements | \$ 53,331 | \$ - | \$ 53,331 |
| Furniture and equipment | 768,195 | - | 768,195 |
| Total property and equipment | 821,526 | - | 821,526 |
| Less: accumulated depreciation | (484,047) | - | (484,047) |
| Capital Assets, net | \$ 337,479 | \$ - | \$ 337,479 |

The Organization purchased a total of \$226,165 in building improvements and furniture and equipment that was recorded as additions to capital assets during the fiscal year ended June 30, 2019. Additionally, \$50,990 was recorded as depreciation expense. All assets for RISE Charter School, LLC were liquidated when the charter school closed.

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2019, consists of the following:

| | Da Vinci Schools | RISE Charter School, LLC | Total |
|-------------------------------|---------------------|--------------------------------|---------------------|
| Due to grantor governments | \$ 195,287 | \$ - | \$ 195,287 |
| Due to authorizing agency | 811,157 | - | 811,157 |
| Salaries and benefits payable | 398,937 | - | 398,937 |
| Due to affiliates* | 31,294 | 175,890 | 207,184 |
| Vendor payables | 1,416,115 | - | 1,416,115 |
| Total Accounts Payable | \$ 2,852,790 | \$ 175,890 | \$ 3,028,680 |

*Refer to Note 9 for additional information amount due to affiliates.

NOTE 6 – DEFERRED REVENUE

There was no deferred revenue balance as of June 30, 2019 for RISE Charter School, LLC. Deferred revenue as of June 30, 2019 consists of the following for Da Vinci Schools:

| | |
|--|-------------------|
| Federal sources | |
| Da Vinci Communications High - Title I | \$ 43,111 |
| State sources | |
| Da Vinci Design - CTIG* | 110,273 |
| Total Deferred Revenue | \$ 153,384 |

*Career Technical Education Incentive Grant (CTIG)

DA VINCI SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 7 – NET ASSETS

Net Assets with Donor Restrictions

As of June 30, 2019, the Charter's net assets with donor restrictions consist of the following:

| | | |
|---|-----------|---------------|
| Northrop/Cal Poly Program | \$ | 83,045 |
| State-imposed restrictions | | |
| Classified employee professional development | | 6,371 |
| Total Net Assets with Donor Restrictions | \$ | 89,416 |

Net Assets without Donor Restrictions

Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Charter. At June 30, 2019, the Charter's net assets without donor restrictions consist of the following:

| | | |
|--|-----------|------------------|
| Net investment in capital assets | \$ | 337,479 |
| Undesignated | | 3,645,096 |
| Total Net Assets without Donor Restrictions | \$ | 3,982,575 |

NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

| | | |
|---|-----------|------------------|
| Financial assets | | |
| Cash and cash equivalents | \$ | 1,973,808 |
| Accounts receivable, current portion | | 4,427,480 |
| Prepaid expenses | | 515,288 |
| Total Financial Assets, excluding noncurrent | \$ | 6,916,576 |
| Contractual or donor-imposed restrictions | | |
| Cash restricted by others for specific uses | | (89,416) |
| Board designations | | - |
| Financial Assets available to meet cash needs for expenditures within one year | \$ | 6,827,160 |

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.

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 the Charters.

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 consolidating financial statements and statements by charter. Interagency transactions have been eliminated on the basic financial statements for purposes of consolidation.

Due to final closure of the public charter school operated by RISE Charter School, LLC, a final audited financial statement for the period of July 1, 2018 to September 30, 2018 was prepared using the liquidation basis. All remaining assets were disbursed to Da Vinci Schools: LA County, an affiliate organization. As of June 30, 2019, a cash balance of \$175,890 is due to Da Vinci Schools: LA County and reported as due to affiliate within Note 5.

Affiliate Organizations

Supporting Organization

In January 2018, management and the Organization's board of trustees elected to establish the Da Vinci Schools Fund (the "Fund"). The Fund was incorporated as a domestic nonprofit for the purpose of providing assistance and support to Da Vinci Schools and its affiliated institutions and organizations. The Fund is governed by a separate governing board independent of the Organization with the exception of two (2) common board members. As of June 30, 2019, the Organization owed \$31,294 for donations collected by Da Vinci Schools and intended for the Fund. This amount is reported as due to affiliates within Note 5.

Da Vinci Schools: LA County

In August 2018, management of the Organization established a new entity, Da Vinci Schools: L.A. County for the purposes of a new public charter school, Da Vinci Rise High (Charter No. 2017) authorized by the Los Angeles County Office of Education. The new school serves the same student population that was previously enrolled in RISE High. The affiliate organization is governed by a separate board of directors independent of the Organization's board.

During the fiscal year ended June 30, 2019, the affiliate organization was in its first year of operation and relied on Da Vinci Schools for financial and administrative support. During the year, the affiliate and the Organization held a memorandum of understanding for shared personnel, including management. At June 30, 2019, Da Vinci Schools: LA County owed \$1,557,251 to the Organization for personnel costs as well as other costs paid by Da Vinci Schools on behalf of the affiliate organization. This amount is presented as due from affiliate within Note 3.

As previously mentioned, RISE Charter School, LLC holds a cash balance of \$175,890 due to Da Vinci Schools: LA County. As part of the RISE High closure, a transfer of net assets of \$634,793 was provided to the affiliate organization. This amount is reported as transfers to affiliate, net on the statement of functional expenses.

Authorizing Agency

The Organization made payments to the Wiseburn Unified School District 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. Fees associated with oversight consist of one percent of revenue from local control funding formula sources. Total fees paid to the District for oversight and facility usage and back-office support amounted to \$191,550 for the fiscal year ending June 30, 2019.

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

Authorizing Agency (continued)

During the fiscal year ended June 30, 2019, the Organization held a memorandum of understanding (MOU) with the Wiseburn Unified School District for shared administrative staff. The agreement covers salaries and benefits for two employees who receive reportable compensation issued under the Wiseburn Unified School District though they provide partial compensated services to the Charters. In consideration for their services, the Organization reimburses the authorizing agency based on the actual salaries and benefits paid to the 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.

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 Charters have made such election for its certificated personnel. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS). The Organization also offers social security as an alternative plan to all employees who may not qualify for CalSTRS retirement 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 10.205% of their 2018-19 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2018-19 was 16.28% 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 |
|---------|--------------|-------------------------------------|
| 2018-19 | \$ 2,874,267 | 100% |
| 2017-18 | \$ 1,335,978 | 100% |
| 2016-17 | \$ 983,381 | 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 \$1,433,263. The on-behalf payment amount is computed as the proportionate share of total 2017-18 State on-behalf contributions plus an additional supplemental contribution for fiscal year 2018-19 due to California Senate Bill No. 90.

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.

Joint Powers Agency (JPA)

During the year ended June 30, 2019, 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 Connect charter school. The facility is utilized by the Da Vinci Connect 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 \$15,702,026 as of June 30, 2018. The Charters do not currently intend to withdraw from CalSTRS. Refer to Note 10 for additional information on employee retirement plans.

NOTE 12 – 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 13 – SUBSEQUENT EVENTS

Da Vinci Schools has evaluated subsequent events for the period from June 30, 2019 through December 13, 2019, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

DA VINCI SCHOOLS
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2019

During 2018-19, Da Vinci Schools, a California non-profit public benefit corporation, operated four (4) public 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 Connect | 8/19/2013 | K - 8 | 1597 |
| Da Vinci Communications High | 8/12/2014 | 9 - 12 | 1689 |

The Charters are governed by the following Board of Trustees of the Organization and managed by the following administration as of June 30, 2019:

BOARD OF TRUSTEES

| Name | Office | Term Expiration |
|----------------------|----------------------------|-----------------|
| Dr. Donald Brann | President | September 2020 |
| Mrs. Jennifer Morgan | Vice President & Secretary | June 2022 |
| Mr. Brian Meath | Treasurer | June 2022 |
| Mr. Israel Mora | Trustee | February 2021 |
| Mr. Roger Bañuelos | Trustee | January 2021 |
| Mr. Kenneth Brown | Trustee | September 2020 |
| Ms. Karen Latuner | Trustee | July 2021 |

ADMINISTRATION

| | |
|--|--|
| Dr. Matthew Wunder <i>Chief Executive Officer</i> | Mr. Marshall Mayotte <i>Chief Financial Officer</i> |
| Ms. Mary Ring <i>Chief Student Services Officer</i> | Dr. Jennifer Hawn <i>Chief Administrative Officer of Personnel & Special Projects</i> |

DA VINCI SCHOOLS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

| | Da Vinci Schools | RISE Charter School, LLC | Consolidated Total |
|---|---------------------|--------------------------------|-----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 1,797,918 | \$ 175,890 | \$ 1,973,808 |
| Accounts receivable | 4,427,480 | - | 4,427,480 |
| Prepaid expenses | 515,288 | - | 515,288 |
| Total current assets | <u>6,740,686</u> | <u>175,890</u> | <u>6,916,576</u> |
| Capital assets | | | |
| Property and equipment | 821,526 | - | 821,526 |
| Less accumulated depreciation | (484,047) | - | (484,047) |
| Capital assets, net | <u>337,479</u> | <u>-</u> | <u>337,479</u> |
| Total Assets | <u>\$ 7,078,165</u> | <u>\$ 175,890</u> | <u>\$ 7,254,055</u> |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities | | | |
| Accounts payable | \$ 2,852,790 | \$ 175,890 | \$ 3,028,680 |
| Deferred revenue | 153,384 | - | 153,384 |
| Total liabilities | <u>3,006,174</u> | <u>175,890</u> | <u>3,182,064</u> |
| Net assets | | | |
| Without donor restrictions | 3,982,575 | - | 3,982,575 |
| With donor restrictions | 89,416 | - | 89,416 |
| Total net assets | <u>4,071,991</u> | <u>-</u> | <u>4,071,991</u> |
| Total Liabilities and Net Assets | <u>\$ 7,078,165</u> | <u>\$ 175,890</u> | <u>\$ 7,254,055</u> |

See accompanying note to supplementary information.

DA VINCI SCHOOLS
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | Da Vinci Schools | RISE Charter School, LLC | Consolidated Total |
|---|---------------------|--------------------------------|-----------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | |
| SUPPORT AND REVENUES | | | |
| Federal and state support and revenues | | | |
| Local control funding formula, state aid | \$ 14,323,674 | \$ - | \$ 14,323,674 |
| Federal revenues | 747,972 | - | 747,972 |
| Other state revenues | 5,053,766 | (14,029) | 5,039,737 |
| Total federal and state support and revenues | 20,125,412 | (14,029) | 20,111,383 |
| Local support and revenues | | | |
| Payments in lieu of property taxes | 4,077,810 | - | 4,077,810 |
| Grants and donations | 1,151,465 | - | 1,151,465 |
| Investment income, net | 21,570 | 38 | 21,608 |
| Other local revenues | 1,180,952 | 1,221 | 1,182,173 |
| Total local support and revenues | 6,431,797 | 1,259 | 6,433,056 |
| Donor restrictions satisfied | 175,865 | 80,980 | 256,845 |
| Total Support and Revenues | 26,733,074 | 68,210 | 26,801,284 |
| EXPENSES | | | |
| Program services | | | |
| Charter school operations | 23,463,439 | 724,470 | 24,187,909 |
| Supporting services | | | |
| Management and general | 2,392,472 | - | 2,392,472 |
| Total Expenses | 25,855,911 | 724,470 | 26,580,381 |
| Increase (decrease) in Net Assets without Donor Restrictions | 877,163 | (656,260) | 220,903 |
| NET ASSETS WITH DONOR RESTRICTIONS | | | |
| Other state revenues | 6,371 | - | 6,371 |
| Donor restrictions released | (175,865) | (80,980) | (256,845) |
| Increase (decrease) in Net Assets with Donor Restrictions | (169,494) | (80,980) | (250,474) |
| CHANGE IN NET ASSETS | 707,669 | (737,240) | (29,571) |
| Net Assets - Beginning | 3,364,322 | 737,240 | 4,101,562 |
| Net Assets - Ending | \$ 4,071,991 | \$ - | \$ 4,071,991 |

See accompanying note to supplementary information.

DA VINCI SCHOOLS
STATEMENT OF FINANCIAL POSITION BY CHARTER
JUNE 30, 2019

| <i>California Public Charter School</i> | Da Vinci Schools | | | |
|---|---------------------|---------------------|---------------------|------------------------------------|
| | <i>No. 1081</i> | <i>No. 1060</i> | <i>No. 1597</i> | <i>No. 1689</i> |
| | Da Vinci Design | Da Vinci Science | Da Vinci Connect | Da Vinci Communications High |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ - | \$ 1,611,916 | \$ - | \$ - |
| Accounts receivable | 1,328,444 | 737,566 | 376,205 | 385,516 |
| Due from related entity | 959,889 | - | 113,814 | - |
| Prepaid expenses | 34,528 | 72,624 | 12,840 | 13,197 |
| Total current assets | 2,322,861 | 2,422,106 | 502,859 | 398,713 |
| Capital assets | | | | |
| Property and equipment | 234,562 | 411,235 | 42,653 | 133,076 |
| Less accumulated depreciation | (145,015) | (260,695) | (40,359) | (37,978) |
| Capital assets, net | 89,547 | 150,540 | 2,294 | 95,098 |
| Total Assets | \$ 2,412,408 | \$ 2,572,646 | \$ 505,153 | \$ 493,811 |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 215,503 | \$ 252,617 | \$ 138,586 | \$ 78,234 |
| Due to related entity | - | 848,760 | - | 224,943 |
| Deferred revenue | 110,273 | - | - | 43,111 |
| Total liabilities | 325,776 | 1,101,377 | 138,586 | 346,288 |
| Net assets | | | | |
| Without donor restrictions | 2,084,663 | 1,387,040 | 364,928 | 145,944 |
| With donor restrictions | 1,969 | 84,229 | 1,639 | 1,579 |
| Total net assets | 2,086,632 | 1,471,269 | 366,567 | 147,523 |
| Total Liabilities and Net Assets | \$ 2,412,408 | \$ 2,572,646 | \$ 505,153 | \$ 493,811 |

See accompanying note to supplementary information.

DA VINCI SCHOOLS
STATEMENT OF ACTIVITIES BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2019

| <i>California Public Charter School</i> | Da Vinci Schools | | | |
|---|---------------------|---------------------|---------------------|------------------------------------|
| | <i>No. 1081</i> | <i>No. 1060</i> | <i>No. 1597</i> | <i>No. 1689</i> |
| | Da Vinci Design | Da Vinci Science | Da Vinci Connect | Da Vinci Communications High |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | | |
| SUPPORT AND REVENUES | | | | |
| Federal and state support and revenues | | | | |
| Local control funding formula, state aid | \$ 4,556,252 | \$ 4,215,194 | \$ 2,351,217 | \$ 3,201,011 |
| Federal revenues | 243,477 | 230,492 | 85,429 | 188,574 |
| Other state revenues | 987,000 | 2,942,900 | 522,153 | 601,713 |
| Total federal and state support and revenues | 5,786,729 | 7,388,586 | 2,958,799 | 3,991,298 |
| Local support and revenues | | | | |
| Payments in lieu of property taxes | 1,183,453 | 1,163,453 | 843,315 | 887,589 |
| Grants and donations | 192,563 | 674,261 | 56,051 | 228,590 |
| Investment income, net | 885 | 19,836 | 350 | 499 |
| Other local revenues | 428,888 | 413,275 | 66,785 | 272,004 |
| Total local support and revenues | 1,805,789 | 2,270,825 | 966,501 | 1,388,682 |
| Donor restrictions satisfied | 72,832 | 57,916 | - | 45,117 |
| Total Support and Revenues | 7,665,350 | 9,717,327 | 3,925,300 | 5,425,097 |
| EXPENSES | | | | |
| Program services | | | | |
| Charter school operations | 6,539,611 | 8,747,311 | 3,415,080 | 4,765,894 |
| Supporting services | | | | |
| Management and general | 704,420 | 651,211 | 451,598 | 585,243 |
| Total Expenses | 7,244,031 | 9,398,522 | 3,866,678 | 5,351,137 |
| Increase (decrease) in Net Assets without Donor Restrictions | 421,319 | 318,805 | 58,622 | 73,960 |
| NET ASSETS WITH DONOR RESTRICTIONS | | | | |
| Other state revenues | 1,969 | 1,184 | 1,639 | 1,579 |
| Donor restrictions released | (72,832) | (57,916) | - | (45,117) |
| Increase (decrease) in Net Assets with Donor Restrictions | (70,863) | (56,732) | 1,639 | (43,538) |
| CHANGE IN NET ASSETS | 350,456 | 262,073 | 60,261 | 30,422 |
| Net Assets - Beginning | 1,736,176 | 1,209,196 | 306,306 | 117,101 |
| Net Assets - Ending | \$ 2,086,632 | \$ 1,471,269 | \$ 366,567 | \$ 147,523 |

See accompanying note to supplementary information.

DA VINCI SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

| | | Classroom-Based | |
|---|-----------------|-------------------------|---------------|
| | | Second Period Report | Annual Report |
| Da Vinci Design: | Certificate No. | 8B41680A | 8432643F |
| Regular ADA | | | |
| Grades 9 - 12 | | 504.70 | 502.06 |
| Special education | | | |
| Grades 9 - 12 | | 2.50 | 2.47 |
| Total Average Daily Attendance - Classroom-Based | | 507.20 | 504.53 |
| Da Vinci Science: | Certificate No. | BD301DD7 | D53E3A6B |
| Regular ADA | | | |
| Grades 9 - 12 | | 511.57 | 508.75 |
| Total Average Daily Attendance - Classroom-Based | | 511.57 | 508.75 |
| Da Vinci Communications High: | Certificate No. | 8F97FE42 | AB0366C5 |
| Regular ADA | | | |
| Grades 9 - 12 | | 379.61 | 377.62 |
| Special education | | | |
| Grades 9 - 12 | | 1.00 | 1.28 |
| Total Average Daily Attendance - Classroom-Based | | 380.61 | 378.90 |

DA VINCI SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE, continued
FOR THE YEAR ENDED JUNE 30, 2019

| | | Nonclassroom-Based | |
|--|-----------------|---------------------------------|----------------------|
| | | <u>Second Period Report</u> | <u>Annual Report</u> |
| Da Vinci Design: | Certificate No. | <u>8B41680A</u> | <u>8432643F</u> |
| Regular ADA | | | |
| Grades 9 - 12 | | <u>40.76</u> | <u>39.20</u> |
| Total Average Daily Attendance - Nonclassroom-Based | | <u>40.76</u> | <u>39.20</u> |
| Da Vinci Science: | Certificate No. | <u>BD301DD7</u> | <u>D53E3A6B</u> |
| Regular ADA | | | |
| Grades 9 - 12 | | <u>27.13</u> | <u>26.11</u> |
| Total Average Daily Attendance - Nonclassroom-Based | | <u>27.13</u> | <u>26.11</u> |
| Da Vinci Communications High: | Certificate No. | <u>8F97FE42</u> | <u>AB0366C5</u> |
| Regular ADA | | | |
| Grades 9 - 12 | | <u>30.36</u> | <u>29.20</u> |
| Total Average Daily Attendance - Nonclassroom-Based | | <u>30.36</u> | <u>29.20</u> |
| Da Vinci Connect: | Certificate No. | <u>E6060269</u> | <u>F1C72EC2</u> |
| Regular ADA | | | |
| Grades K - 3 | | 179.46 | 178.09 |
| Grades 4 - 6 | | 132.55 | 131.26 |
| Grades 7 - 8 | | 77.09 | 77.12 |
| Special education | | | |
| Grades 4 - 6 | | 0.72 | 0.72 |
| Grades 7 - 8 | | <u>0.65</u> | <u>0.52</u> |
| Total Average Daily Attendance - Nonclassroom-Based | | <u>390.47</u> | <u>387.71</u> |

See accompanying note to supplementary information.

DA VINCI SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

| Grade Span | Minutes Requirement | 2018-19 Actual Minutes | Number of Days Traditional Calendar | Status |
|--------------------------------------|--------------------------------|-----------------------------------|--|---------------|
| Da Vinci Design: | | | | |
| Grades 9 - 12 | 64,800 | 66,525 | 175 | Complied |
| Da Vinci Science: | | | | |
| Grades 9 - 12 | 64,800 | 71,045 | 175 | Complied |
| Da Vinci Communications High: | | | | |
| Grades 9 - 12 | 64,800 | 70,845 | 175 | Complied |

Da Vinci Connect did not report regular ADA for classroom-based instruction; therefore, there are no instructional minutes listed for this charter school.

DA VINCI SCHOOLS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

| | Da Vinci Design <i>No. 1081</i> | Da Vinci Science <i>No. 1060</i> | Da Vinci Connect <i>No. 1597</i> | Da Vinci Communications High <i>No. 1689</i> |
|--|---------------------------------------|--|--|---|
| <i>California Public Charter School</i> | | | | |
| June 30, 2019, fund balance/fund balance per Financial Report - Alternative Form (Charter School Unaudited Actuals) | \$ 2,058,516 | \$ 1,444,292 | \$ 349,694 | \$ 127,057 |
| Increase (decrease) in total net assets: | | | | |
| Adjustments: | | | | |
| Recording of salaries and benefits in error | 27,945 | 26,803 | 16,747 | 20,336 |
| Overallocation of other operating expenses | 171 | 174 | 126 | 130 |
| Total net adjustments | 28,116 | 26,977 | 16,873 | 20,466 |
| June 30, 2019, net assets per audited financial statements | \$ 2,086,632 | \$ 1,471,269 | \$ 366,567 | \$ 147,523 |

See accompanying note to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

A. 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.

B. Consolidating Financial Statements

Consolidating statements of financial position and activities by entity provide information supporting the combined amounts incorporated in the consolidated financial statements of the Organization.

C. Statements by Charter

Statements of financial position and activities by charter provide information supporting the amounts for each public charter school. The statements include financial information for each California public charter schools operated under Da Vinci Schools and RISE Charter School, LLC.

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 Financial – Alternative Form with Audited Financial Statements

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

OTHER INDEPENDENT AUDITORS' REPORTS

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

Independent Auditors' Report

To the Board of 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, 2019, 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 13, 2019.

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 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.

A handwritten signature in blue ink that reads "Christy White, Inc". The signature is written in a cursive, flowing style.

San Diego, California
January 8, 2020

REPORT ON STATE COMPLIANCEIndependent 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 *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 Da Vinci Schools' state programs for the fiscal year ended June 30, 2019, as identified below. Reference to Da Vinci Schools within this letter is inclusive of Da Vinci Design (No. 1081), Da Vinci Science (No. 1060), Da Vinci Connect (No. 1597), and Da Vinci Communications High (No. 1689).

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 *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 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.

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 all other state programs noted in the following table for the year ended June 30, 2019.

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 | California Public Charter School | | |
|---|---|--|---------------------------------|
| | No. 1081 & 1060 Da Vinci Design & Da Vinci Science | No. 1689 Da Vinci Communications High | No. 1597 Da Vinci Connect |
| Procedures Performed | | | |
| School Districts, County Offices of Education, and Charter Schools | | | |
| California Clean Energy Jobs Act | Yes | Not applicable | Not applicable |
| After/Before 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 |
| Charter Schools | | | |
| Attendance | Yes | Yes | Yes |
| Mode of Instruction | Yes | Yes | Not applicable |
| Nonclassroom-Based Instruction/Independent Study for Charter Schools | Yes | Yes | Yes |
| Determination of Funding for Nonclassroom-Based Instruction | Not applicable | Not applicable | Yes |
| Annual Instructional Minutes – Classroom Based | Yes | Yes | Not applicable |
| Charter School Facility Grant Program | Not applicable | Not applicable | Not applicable |



San Diego, California
January 8, 2020

FINDINGS AND QUESTIONED COSTS SECTION

DA VINCI SCHOOLS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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>Yes</u> |
| Significant deficiency(ies) identified not considered to be material weaknesses? | <u>None Reported</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, 2019

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, 2019.

DA VINCI SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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

There were no audit findings and questioned costs related to state awards during 2018-19.

DA VINCI SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

FINDING 2018-001: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNT (40000)

Criteria: Students designated as an English Learner (EL) and/or classified as Free and Reduced Meal (FRPM) eligible, 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 EL designation or FRPM status. 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 *2017-18 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 2017-18 CALPADS 1.18 *FRPM/English Learner/Foster Youth – Student List* report for each charter school, we noted the following with regard to English Learner (EL) statuses at Da Vinci Design. In our initial audit test work of EL-only students from Da Vinci Design, no current annual assessment information was made available for audit for one (1) of five (5) EL students. It was elected to extrapolate the error over the remaining population of thirteen (13) students. As a result, the error is estimated to exist in three (3) additional students for a total estimated error of four (4) students.

Effect: The charter schools are not in compliance with State requirements. A total of four (4) students from Da Vinci Design and one (1) student from Da Vinci Science were found to be improperly designated.

Cause: Students were properly assessed but English Learner Acquisition Status (ELAS) designations for students who were reclassified from EL to RFEP were not timely updated in the student information system to ensure for accurate CALPADS reporting. Data would need to be input before the end of the 2017-18 Fall 1 submission window (or amendment window, if applicable) and prior to certification of CALPADS data; however, information for the students mentioned above was not reflected in the system at that time.

Questioned Cost: \$982 for Da Vinci Design as calculated using guidance from the California Department of Education (CDE).

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. If necessary, updated information should be submitted and recertified within the amendment window.

Corrective Action Plan: Da Vinci staff will continue to follow the 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. A compliance process was developed by Da Vinci Schools staff and periodic trainings will take place. The goal will be to properly report the pupil count in CALPADS that affects the school's Local Control Funding Formula.

Current Status: Implemented.