NEW DESIGNS CHARTER SCHOOL WATTS

INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2017

NEW DESIGNS CHARTER SCHOOL WATTS

INTRODUCTORY SECTION

JUNE 30, 2017

NEW DESIGNS CHARTER SCHOOL WATTS
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NEW DESIGNS CHARTER SCHOOL WATTS

FINANCIAL SECTION

JUNE 30, 2017

MATTHEW LEMAS
CPA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
New Designs Charter School Watts
Los Angeles, California

Report on the Financial Statements

I have audited the accompanying financial statements of New Designs Charter School Watts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Auditor's Responsibility (Continued)

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, I express no such opinion. An audit also includes evaluation 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Designs Charter School Watts as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements of New Designs Charter School Watts taken as a whole. The supplementary information listed in the table of contents (Organization, Schedule of Average Daily Attendance, Schedule of Instructional Time, and the Statement of Functional Expenses), 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 basic financial statements and certain other 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2017 on my consideration of the New Designs Charter School Watts' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreement and other matters. The purpose of that report is to describe the scope of my 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 Charter's internal control over financial reporting and compliance.

San Diego, California
November 30, 2017

NEW DESIGNS CHARTER SCHOOL WATTS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current Assets		
Cash (Note 3)	$	1,530,289
Accounts Receivable (Note 4)		406,388
Deposits and Prepaid Expenses		147,321
Related Party Receivable (Note 15)		569,291
Total Current Assets		**2,653,289**
Property and Equipment		
Property and Equipment (Net of Depreciation) (Note 12)		434,022
Total Fixed Assets		**434,022**
TOTAL ASSETS		**3,087,311**

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable		341,203
Accrued Liabilities		276,189
Loans Payable - CAM (Note 14)		1,374,611
Deferred Revenue		248,287
Total Current Liabilities		**2,240,290**
Long-Term Liabilities		
Total Long Term Liabilities		**-**
TOTAL LIABILITIES		**2,240,290**
Net Assets		
Unrestricted Net Assets		847,021
Total Net Assets		**847,021**
TOTAL LIABILITIES AND NET ASSETS	$	**3,087,311**

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

NEW DESIGNS CHARTER SCHOOL WATTS
STATEMENT OF ACTIVITIES
JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support			
State Aid - Current Year	$ 2,938,719	$ -	$ 2,938,719
Education Protection Accounts State Aid	610,924	-	610,924
State Aid - Prior Years	(34,276)	-	(34,276)
In Lieu Property Taxes	954,942	-	954,942
Federal Revenues	-	283,124	283,124
State Revenue	321,955	707,020	1,028,975
Local Revenues	14,931	-	14,931
Total Support	**4,807,195**	**990,144**	**5,797,339**
Expenses			
Program Services - Education	3,394,325	990,144	4,384,469
Support Services - Management and General	1,090,949	-	1,090,949
Total Expenses	**4,485,274**	**990,144**	**5,475,418**
Increase (Change) in Unrestricted Net Assets	321,921	-	321,921
Change in Net Assets	321,921	-	321,921
Net Assets - July 1, 2016	525,100	-	525,100
Net Assets - June 30, 2017	**$ 847,021**	**$ -**	**$ 847,021**

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

NEW DESIGNS CHARTER SCHOOL WATTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities	
Change in Net Assets	**$ 321,921**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation	85,544
(Increase) Decrease in Operating Assets:	
Accounts Receivable	245,656
Prepaid Expenses	(774)
Related Party Receivable	(569,291)
Other Current Assets	11,812
Increase (Decrease) in Operating Liabilities	
Accounts Payable	166,070
Deferred Revenue	128,892
Loans Payable	1,035,293
Related Party Payable	(846,940)
Accrued Liabilities	122,612
Net Cash Provided by Operating Activities	**700,795**
Cash Flows from Investing Activities	
Purchase of Property and Equipment	(95,059)
Net Cash (Used) by Investing Activities	**(95,059)**
Cash Flows from Financing Activities	
Net Cash Provided (Used) by Financing Activities	-
Net Increase in Cash	605,736
Cash at Beginning of Period	924,553
Cash at End of Period	**$ 1,530,289**

Cash Paid for interest $107,381

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

NEW DESIGNS CHARTER SCHOOL WATTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of accounting policies and other necessary disclosure of pertinent matters relating to financial position and results of operations of New Designs Charter School Watts (the Organization). The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this report.

NOTE 1 - ORGANIZATION

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting
B. Basis of Presentation
C. Estimates
D. Fixed Assets
E. Deferred Revenue
F. Income Taxes
G. Functional Allocation of Expenses
H. Cash

NOTE 3 - CASH AND CASH EQUIVALENTS

A. Cash in County Treasury
B. Cash in Banks

NOTE 4 - ACCOUNTS RECEIVABLE

NOTE 5 - CLASSIFICATION OF ITEMS

NOTE 6 - POST-EMPLOYMENT BENEFITS

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

NOTE 8 - LEASES

NOTE 9 - DONATED ASSETS

NOTE 10 - PROPERTY AND EQUIPMENT

NOTE 11 - SUBSEQUENT EVENTS

NOTE 12 - EXCESS EXPENDITURES OVER APPROPRIATIONS

NOTE 13 - OPEN TAX YEARS

NOTE 14 - LOANS PAYABLE - CAM

NOTE 15 - RELATED PARTY RECEIVABLE

NOTE 1 - ORGANIZATION

New Designs Charter School Watts (the Organization) is a non-profit public benefit corporation. The Organization petitioned and was approved through the Los Angeles Unified School District for a five year period on July 1, 2009 and ending on June 30, 2014, which was renewed through 2019.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. The Organization maintains its financial records using the accrual method of accounting under which income is recognized when earned and expenses are recognized when the obligation is incurred.

B. Basis of Presentation

The Organization, in accordance with Accounting Standards Codification (ASC) 958-205, Not-For-Profit Entities - Presentation of Financial Statements, 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. As of June 30, 2017, the Organization does not have any temporarily restricted net assets or permanently restricted net assets. It is also required to present a statement of cash flows.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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. Accordingly, actual results could differ from those estimates.

D. Fixed Assets

Fixed assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing $ 5,000 or more; all other assets are charged to expense in the year incurred. For additional information, see Note 10.

E. Deferred Revenue

Deferred revenue represents federal and state contract funds received, but not expended. These funds must be expended in accordance with the provisions of the contract to which they apply or refunded if not expended under the terms of the contract. The Organization has deferred revenue at June 30, 2017 of $248,287.

F. Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section (IRC §) 501(c) (3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose.

G. Functional Allocation of Expenses

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash

For purposes of the Statement of Cash Flows, the Organization considers all cash on hand and in banks.

NOTE 3 - CASH AND CASH EQUIVALENTS

A. Cash in County Treasury

The Organization maintains a portion of its cash in the County Treasury as part of the common investment pool ($ 0 as of June 30, 2017). The fair value of the Organization's portion of this pool as of that date, as provided by the pool sponsor, was $ 0. Assumptions made determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

B. Cash in Banks

Cash at June 30, 2017 consisted of the following:

Pooled Funds:		
Cash in County Treasury	$	-
Deposits:		
Checking - Broadway Federal Bank		1,529,250
Petty Cash Fund		1,039
Total Cash in Banks and on Hand:	**$**	**1,530,289**

Cash balances held in banks and/or credit unions and in revolving funds are insured up to $ 250,000 by federal agencies. The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. At June 30, 2017, the Organization had $ 1,280,289 in uninsured funds.

NOTE 4 - ACCOUNTS RECEIVABLE

As of June 30, 2017, the accounts receivable were as follows:

	June 30, 2017
State Apportionments	230,151
Federal Revenues	12,661
State Revenues	148,390
Pers/STRS	15,186
Total	**$ 406,388**

NOTE 5 - CLASSIFICATION OF ITEMS

Certain items may have been classified differently from one year to another.

NOTE 6 - POST-EMPLOYMENT BENEFITS

For the year ended June 30, 2017, the Organization did not provide for any post-employment benefits.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

Plan Description and Funding Policy

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS). The Organization also covers classified staff under the California Public Employees' Retirement System (CalPERS).

STRS

The Organization contributes to the State Teachers' Retirement Systems (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

STRS (Continued)

Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, and Sacramento, California 95826.

STRS Funding Policy

Active plan members are required to contribute between 8.56% and 9.20%, depending on date of hire, of their salary and the Organization is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016-2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contribution to STRS for the fiscal years ending June 30, 2017, 2016, and 2015 were $358,259, $192,893, and $104,581 respectively, and equals 100% of the required contributions for each fiscal year.

California Public Employee's Retirement System (CalPERS)

Plan Description

The Organization contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Funding Policy

Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of 50% of normal costs or 6% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The Organization is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016-17 was 11.22% of annual payroll. The Organization contributed $123,577 and $43,773 for the 2017 and 2016 years, respectively, which were 100% of their required contribution.

NOTE 8 - LEASES

Operating Leases

The Organization leases a facility under a 20 year lease agreement with an option to renew at the end of the lease term. The organization also leases a parking lot and copy machine under a monthly lease agreement. These future minimum lease payments are as follows:

NOTE 8 – LEASES (CONTINUED)

Year Ending June 30,	Lease Payments
2018	$ 537,621
2019	537,715
2020	540,865
2021	539,412
2022	538,566
2023-2027	2,703,421
2028-2032	2,699,175
2033-2037	2,699,681
2038-2042	2,696,998
2043-2044	969,138
Total	**$ 14,462,592**

NOTE 8 – LEASES (CONTINUED)

The Organization receives no sublease rental revenues or pays any contingent rentals associated with these leases. For the year ended June 30, 2017, operating lease expense was $ 627,127.

Capital Leases

The Organization does not have any capital lease arrangements.

NOTE 9 - DONATED ASSETS

The Organization received donated used assets consisting of computers, office furniture, classroom furniture, visual equipment, and various other sundry supplies. The used assets are not reflected on the financial statements due to the immateriality of the amounts.

NOTE 10 - PROPERTY AND EQUIPMENT

Property and Equipment at year ended June 30, 2017 consist of the following:

Building and Improvements	$	962,209
Furniture and Equipment		163,981
Less: Accumulated Depreciation		(692,168)
Total Property and Equipment, Net of Depreciation	**$**	**434,022**

NOTE 11 - SUBSEQUENT EVENTS

Events subsequent to June 30, 2017 have been evaluated through November 3, 2017, the date at which the Organization's audited financial statements were available to be issued. Subsequent to June 30, 2017, the Organization noted no material reportable subsequent events.

NOTE 12 - EXCESS EXPENDITURES OVER APPROPRIATIONS

The Organization had the following excess expenditures over appropriations for the year ended June 30, 2017.

Categories	Amounts	
Employee Benefits	$	(10,619)

NOTE 13 - OPEN TAX YEARS

There are no unrecognized tax benefits identified or recorded as liabilities for the year ended June 30, 2017.

The Organization files form 990 in the U.S. federal jurisdiction and form 199 in the State of California. The Organization's federal and state returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal income tax returns have a three year statute of limitations, and the state income tax returns have a four year statute of limitations.

NOTE 14 – LOANS PAYABLE - CAM

During the year, the organization entered into a factoring agreement with Charter Asset Management Fund, LP (CAM) to receive discounted advanced funds by selling their accounts receivable from the State of California. The School's apportionment payments are sent directly to CAM. Amounts previously advanced to the organization have been reduced to reflect the factoring service fee charged by CAM. These accounts receivable from the State and the liability to CAM have been recorded in the financial statements. At June 30, 2017, the Organization owed $1,374,611 to CAM.

NOTE 15 – RELATED PARTY RECEIVABLES

The Organization makes payments to a related party, New Designs Charter School. New Designs Charter School is a related party because they have the same board of directors and share management personnel.

Net Receivables to related parties as of June 30, 2017 are as follows:

New Designs Charter School	$	569,291
Total Related Party Receivables	**$**	**569,291**

NEW DESIGNS CHARTER SCHOOL WATTS

SUPPLEMENTARY INFORMATION SECTION

JUNE 30, 2017

NEW DESIGNS CHARTER SCHOOL WATTS
ORGANIZATION
JUNE 30, 2017

The Board of Trustees for the fiscal year ended June 30, 2017 was composed of the following members:

Name	Title	Term Expires
Andrea Cockrum	Board President	June 30, 2019
Lloyd McKinney	Vice President	June 30, 2020
Sheldon Zaslansky	Treasurer	June 30, 2019
Derek Akrofi	Secretary	June 30, 2018
Kojo Essien	Member	June 30, 2020
Diego Abba	Member	June 30, 2018
Edna Marroquin	Member	June 30, 2019

New Designs Charter School received it's charter from the Los Angeles Unified School District in 2009. There were no boundary changes during the year. The Charter oserved students in grades 6-12.

Management Team
Paul Okaiteye, CEO
Dr. Joseph Ntung, Principal
Samuel Kyerematen, Director of Business Services

Charter Number
1120

NEW DESIGNS CHARTER SCHOOL WATTS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
JUNE 30, 2017

	Second Period Report	Annual Report
	Classroom Based	Classroom Based
Grade 6	84.21	83.13
Grades 7 - 8	139.66	134.83
Grades 9 - 12	217.08	212.61
Total New Designs Charter School Watts	440.95	430.57

The Organization is 100% classroom-based and generates no ADA from a full-time independent study program.

NEW DESIGNS CHARTER SCHOOL WATTS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Grade Level	2016-2017 Required Minutes	2016-2017 Actual Minutes	Traditional Actual days	Status
Grade 6	54,000	70,605	180	In Compliance
Grade 7	54,000	70,605	180	In Compliance
Grade 8	54,000	70,605	180	In Compliance
Grade 9	64,800	70,605	180	In Compliance
Grade 10	64,800	70,605	180	In Compliance
Grade 11	64,800	70,605	180	In Compliance
Grade 12	64,800	70,605	180	In Compliance

NEW DESIGNS CHARTER SCHOOL WATTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Support Services		
	Education	**Management and General**	**Fundraising**	**Total**
Compensation and Related Expenses				
Salaries - Certificated	$ 1,163,775	$ 238,364	$ -	$ 1,402,139
Salaries - Classified	412,976	84,586	-	497,562
Employee Benefits	444,397	91,021	-	535,418
Total Compensation and Related Expenses	**2,021,148**	**413,971**	-	**2,435,119**
Books and Supplies	145,587	29,819	-	175,406
Travel and Conferences	801	164		965
Dues and Memberships	2,714	556	-	3,270
Insurance	68,209	13,970	-	82,179
Operation and Housekeeping Services	99,986	20,479	-	120,465
Rental, Leases, Repairs, and Non-Capitalized Equipment	562,015	115,112	-	677,127
Depreciation and Amortization		85,544	-	85,544
Communications	75,487	15,461	-	90,948
Professional/Consulting Services and Operating Expenditures	1,408,522	288,492	-	1,697,014
Interest, Long-Term Debt	-	107,381	-	107,381
TOTAL	**$ 4,384,469**	**$ 1,090,949**	-	**$ 5,475,418**

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

NEW DESIGNS CHARTER SCHOOL WATTS
RECONCILIATION OF SACS REPORT TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

June 30, 2017 Ending Fund Balance Per SACS Report	**$**	**770,657**
Adjustments to Reconcile Change in Ending Fund Balance:		
(Increase) Decrease In Operating Assets:		
Cash		(1,719)
Accounts Receivable		4,289
Related Party Receivables		19,552
Fixed Assets		(1,457)
Increase (Decrease) In Operating Liabilities:		
Accounts Payable		111,520
Unearned Revenue		(72,846)
Accrued Liabilities		14,525
Notes Payble		2,500
June 30, 2017 Ending Fund Balance Per Audit	**$**	**847,021**

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

NEW DESIGNS CHARTER SCHOOL WATTS

OTHER INDEPENDENT AUDITOR'S REPORT SECTION

JUNE 30, 2017

MATTHEW LEMAS
CPA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

4275 Executive Square, Suite 200, La Jolla, CA 92037 | Tel 858.260.5236 | Fax 309.410.4146

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

Board of Directors
New Designs Charter School Watts
Los Angeles, California

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of New Designs Charter School Watts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 on internal control over financial reporting and compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of *Government Auditing Standards* and is intended solely for the information and use of the Board, management, the Los Angeles County Office of Education, the State Board of Education, the California Department of Education, and the State Controller's Office and federal awarding agencies and pass-through entities. Accordingly, this report is not suitable for any other purpose.

San Diego, California
November 30, 2017

MATTHEW LEMAS
CPA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
New Designs Charter School Watts
Los Angeles, California

Report on State Compliance

I have audited the compliance of New Designs Charter School Watts (the Organization) 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* issued by the Education Audit Appeals Panel that could have a direct and material effect on each of New Designs Charter School Watts' state programs for the fiscal year ended June 30, 2017, as identified below.

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

My responsibility is to express an opinion on compliance for each of New Designs Charter School Watts' state programs based on my audit of the types of compliance requirements referred to above.

I conducted my audit 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,* issued by the Education Audit Appeals Panel. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below that could have a direct and material effect on the state programs noted below has occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion. However, my audit does not provide a legal determination of the Organization's compliance with those requirements.

Opinion on State Compliance

In my opinion, New Designs Charter School Watts complied, in all material respects, with the types of compliance requirements referred to above that are applicable to state programs noted in the table below for the year ended June 30, 2017.

Procedures Performed

In connection with the audit referred to above, I selected and tested transactions and records to determine New Designs Charter School Watts' compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Founts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	N/A
Immunizations	Yes
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	N/A
Determination of Funding for Nonclassroom -Based Instruction	Yes
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Yes

San Diego, California
November 30, 2017

NEW DESIGNS CHARTER SCHOOL WATTS

FINDINGS AND RECOMMENDATIONS SECTION

JUNE 30, 2017

NEW DESIGNS CHARTER SCHOOL WATTS
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2017

My study and evaluation did not disclose any material weaknesses in the Organization.

NEW DESIGNS CHARTER SCHOOL WATTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

Findings/Recommendations	Current Status	Explanation If Not Implemented
NONE	N/A	N/A