



Highland Academy Charter School

Board Meeting

Date and Time

Thursday December 18, 2014 at 6:00 PM

Location

715 Wellwood Ave. Beaumont, CA 92223, Conference Room

Agenda

	Purpose	Presenter	Duration
I. Opening Items			
A. Record Attendance and Guests			
B. Call the Meeting to Order			
C. Approve Minutes	Approve Minutes	Kerrie Fairchild	1
II. Academic Excellence			
A. ASB Report	FYI	Isabella Sanchez	5
III. CEO Support And Eval			
IV. Development			
V. Facility			
A. Facility Report	FYI	Brent Bishop	5
VI. Finance			
A. Presentation by Charter Asset Management (Steven Holguin)	Discuss	Brent Bishop	5
B. Audit Report by Nigro and Nigro	Discuss	Brent Bishop	10
C. 1st Interim Budget Report Clarification	Discuss	Brent Bishop	10
VII. Governance			
A. Discuss Potential New Board Members	Discuss	Kerrie Fairchild	10
B. Approve New Board Member	Vote	Kerrie Fairchild	5
VIII. Other Business			
IX. Closing Items			
A. Adjourn Meeting	Vote		

Agenda Cover Sheets

Section: VI. Finance
Item: B. Audit Report by Nigro and Nigro
Purpose: Discuss
Goal:
Submitted by:
Related Material: Highland Academy Audit Report 2014 revised (1).pdf



Highland Academy Charter School

Minutes

Board Meeting

Date and Time

Thursday November 20, 2014 at 6:00 PM

Location

715 Wellwood Ave. Beaumont, CA 92223, Conference Room

Board Members Present

Billy McIntosh, James Neilson, Kerrie Fairchild, Margarita Garcia, Matthew Croad

Board Members Absent

Guests Present

Brent Bishop, Terrence Davis

I. Opening Items

A.Record Attendance and Guests

B.Call the Meeting to Order

Brent Bishop called a meeting of the board of directors of Highland Academy Charter School to order on Thursday Nov 20, 2014 @ 6:09 PM at 715 Wellwood Ave. Beaumont, CA 92223, Conference Room.

C.Approve Minutes

K. Fairchild made a motion to approve minutes from the Board Meeting on 09-18-14.

Matthew Croad seconded the motion.

The board **VOTED** unanimously to approve the motion.

II. Facility

A. Discuss possibility of having HACS Board write letter to Beaumont USD regarding Playground Equipment

Board will compose letter to BUSD requesting facility upgrades.

III. Finance

A. Report on Line of Credit Program through Chase Bank

Board will not pursue line of credit and will stay with Charter School Capital.

B. Recommend approving 1st Interim Budget presented by Nigro and Nigro

K. Fairchild made a motion to Approve 1st Interim as presented.

Billy McIntosh seconded the motion.

The board **VOTED** unanimously to approve the motion.

C. Looking at switching to ADP for Payroll and HR Services

D. Recommend End of Year bonuses for Teachers and other Staff Members

K. Fairchild made a motion to approve \$200 per staff member as a bonus.

Billy McIntosh seconded the motion.

The board **VOTED** unanimously to approve the motion.

E. Report on Paychex inquiry for CalSTRS Payments

IV. Closing Items

A. Schedule Meeting for December

B. Adjourn Meeting

There being no further business to be transacted, and upon motion duly made, seconded and approved, the meeting was adjourned at 7:11 PM.

Respectfully Submitted,
Billy McIntosh

**HIGHLAND ACADEMY CHARTER SCHOOL
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2014**



HIGHLAND ACADEMY CHARTER SCHOOL

For the Fiscal Year Ended June 30, 2014

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Financial Section

INDEPENDENT AUDITORS' REPORT

Board of Directors
Highland Academy Charter School
Beaumont, California

Report on the Financial Statements

We have audited the accompanying financial statements of Highland Academy Charter School (a California nonprofit Organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the fiscal 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The Academy's financial statements do not classify expenses by function, but rather by their "natural" classification. FASB ASC 958-720-05-4 states that to help donors, creditors, and others assess a not-for-profit organization's service efforts, including the costs of its services and how it uses resources, a statement of activities or notes to financial statements should provide information about expenses reported by their functional classification, such as major classes of program services and supporting activities.

Qualified Opinion

In our opinion, except for the classification of expenses as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Highland Academy Charter School as of June 30, 2014 and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Other Information*

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 on our consideration of the Highland Academy Charter School'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Murrieta, California
December 1, 2014

HIGHLAND ACADEMY CHARTER SCHOOL

Statement of Financial Position

June 30, 2014

ASSETS

Current assets:

Cash	\$	128,147
Accounts receivable		13,250
Prepaid expenses		4,456
Total current assets		<u>145,853</u>

Capital assets:

Equipment		46,290
Less accumulated depreciation		<u>(5,556)</u>
Total capital assets		<u>40,734</u>

Total assets	\$	<u><u>186,587</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities:

Accounts payable	\$	84,456
Payroll liabilities		75,427
Unearned revenue		<u>23,045</u>

Total liabilities		182,928
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NET ASSETS

Unrestricted		<u>3,659</u>
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Total liabilities and net assets	\$	<u><u>186,587</u></u>
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HIGHLAND ACADEMY CHARTER SCHOOL*Statement of Activities**For the Fiscal Year Ended June 30, 2014*

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT			
LCFF sources	\$ 848,708	\$ -	\$ 848,708
Public charter schools grant program	-	202,500	202,500
Other local sources	52,975	-	52,975
Net assets released from restrictions:			
Public charter schools grant program	202,500	(202,500)	-
Total Revenues, Gains, and Other Support	<u>1,104,183</u>	<u>-</u>	<u>1,104,183</u>
EXPENSES			
Certificated salaries	463,169	-	463,169
Classified salaries	61,194	-	61,194
Employee benefits	141,600	-	141,600
Books and supplies	298,658	-	298,658
Services and other operating expenditures	130,347	-	130,347
Capital outlay	5,556	-	5,556
Total Expenses	<u>1,100,524</u>	<u>-</u>	<u>1,100,524</u>
Change in Net Assets	3,659	-	3,659
Net Assets, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, June 30, 2014	<u>\$ 3,659</u>	<u>\$ -</u>	<u>\$ 3,659</u>

HIGHLAND ACADEMY CHARTER SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in Net Assets	\$	3,659
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation expense		5,556
(Increase) decrease in operating assets:		
Prepaid expenses		(4,456)
Increase (decrease) in operating liabilities:		
Accounts payable		84,456
Payroll liabilities		75,427
Unearned revenue		23,045
		<hr/>
Net cash provided (used) by operating activities		174,437

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of equipment		<hr/> (46,290)
Net increase (decrease) in cash		128,147
Beginning Cash, July 1, 2013		<hr/> -
Ending Cash, July 1, 2014	\$	<hr/> <hr/> 128,147

HIGHLAND ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Highland Academy Charter School (the “Academy”), a nonprofit organization, was organized in the State of California. The Academy’s mission is to build character, foster self-motivation and enhance leadership ability in students. The Academy was formed as a charter school pursuant to California Education Code Section 47600 under a charter agreement with the Beaumont Unified School District. The Academy provides non-classroom-based and classroom-based instruction.

B. Accounting Policies

The Academy accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual*. The accounting policies of the Academy conform to generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Financial statements are prepared using the accrual basis of accounting.

Revenues – exchange and non-exchange transactions.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include property taxes, grants and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred.

When both restricted and unrestricted resources are available for use, it is the Academy’s policy to use restricted resources first, then unrestricted resources as they are needed.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

HIGHLAND ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Net Assets

Unrestricted: These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions and performing administrative functions.

Temporarily Restricted: The Academy reports gifts of cash and other assets as temporarily restricted support when they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, i.e. the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

F. Cash

Cash consists of funds held in financial institutions. The Academy considers certificates of deposit with a maturity date of 90 days or longer to be investments. At year-end and throughout the year, the Academy's cash balances were deposited in one financial institution. As of June 30, 2014 the Academy did not hold any cash as investments.

G. Contributions

The Academy has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

H. Non-Cash Donations

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time.

I. 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.

J. Capital Assets

Property and equipment are recorded at cost, or estimated fair value at the date of donation, and are updated for additions and retirements during the year. The Academy's policy is to capitalize all assets costing \$500 or more; all other assets are expensed in the year incurred. All capital assets, except for land and construction in progress, are depreciated. As of June 30, 2014 the Academy had \$46,290 in capital assets.

HIGHLAND ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Income Taxes

The Academy is a non-profit public-benefit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for income taxes.

Management has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Academy's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Academy files informational returns in the U.S. federal jurisdiction and the state of California.

L. Unearned Revenue

Unearned revenue is recorded to the extent cash is received from sale of receivables in advance of services rendered.

NOTE 2 – CASH

Cash at June 30, 2014 is reported at fair value and consisted of cash on hand and in banks in the amount of \$128,147.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a policy for custodial credit risk for deposits. Deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account through December 31, 2013, and other cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. As of June 30, 2014, none of the Academy's bank balance was exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 consists of LCFF sources in the amount of \$13,250.

NOTE 4 – SALE OF RECEIVABLES

On August 30, 2013, the Academy entered into an agreement with Charter School Capital, Inc. to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$189,311, with an initial deferred sales price retention of \$28,411, resulting in an initial purchase price (face value) of \$160,900. The factor charged a net program fee of \$5,182 and a discount fee of \$9,056. The total loss on sale of receivables was \$14,238, resulting in net cash proceeds of \$146,662.

HIGHLAND ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014

NOTE 4 – SALE OF RECEIVABLES (continued)

On December 30, 2013, the Academy entered into another agreement with Charter School Capital, Inc. to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$72,560, with an initial deferred sales price retention of \$16,860, resulting in an initial purchase price (face value) of \$55,700. The factor charged a net program fee of \$2,786 and a discount fee of \$2,726. The total loss on sale of receivables was \$5,512, resulting in net cash proceeds of \$50,188.

On February 28, 2014, the Academy entered into a third agreement with Charter School Capital, Inc. to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$134,947, with an initial deferred sales price retention of \$20,447, resulting in an initial purchase price (face value) of \$114,500. The factor charged a net program fee of \$5,725 and a discount fee of \$8,298. The total loss on sale of receivables was \$14,023, resulting in net cash proceeds of \$100,477.

On May 30, 2014, the Academy entered into a fourth agreement with Charter School Capital, Inc. to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$94,441, with an initial deferred sales price retention of \$14,441, resulting in an initial purchase price (face value) of \$80,000. The factor charged a net program fee of \$2,000 and a discount fee of \$4,115. The total loss on sale of receivables was \$6,115, resulting in net cash proceeds of \$73,885.

NOTE 5- CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014
Capital assets being depreciated:				
Equipment	\$ -	\$ 46,290	\$ -	\$ 46,290
Total capital assets being depreciated	-	46,290	-	46,290
Accumulated depreciation for:				
Equipment	-	(5,556)	-	(5,556)
Total accumulated depreciation	-	(5,556)	-	(5,556)
Total capital assets being depreciated, net	-	40,734	-	40,734
Capital assets, net	\$ -	\$ 40,734	\$ -	\$ 40,734

Depreciation on all equipment is provided on the straight-line basis over an estimated useful life of five years.

HIGHLAND ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014

NOTE 6 – EMPLOYEE RETIREMENT PLANS

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).

Plan Description and Provisions

State Teachers' Retirement System (STRS)

Plan Description

The Academy 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 comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at www.calstrs.com.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The Academy's contributions to STRS for the last fiscal year was as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2013-14	\$ -	0%

The Charter was unaware of the funding requirements for CalSTRS for the 2013-14 fiscal year and did not remit the required contributions of \$54,152 to CalSTRS. This amount represents a current liability in the financial statements.

Alternative Retirement Plan

The Organization has established a 403(b) retirement plan, also known as a tax-sheltered annuity plan, whereby all eligible employees may contribute to the plan under a salary reduction agreement. The Organization has provided for matching contributions to be made for up to 5% of gross compensation. The Organization paid \$14,736 in matching contributions for the year ended June 30, 2014.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The Academy has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

HIGHLAND ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2014

NOTE 8 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2014 have been evaluated through December 1, 2014, the date at which the School's audited financial statements were available to be issued.

On October 22, 2014 the Academy entered into an agreement with Charter School Capital, Inc. to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$159,171, with an initial deferred sales price retention of \$25,471, resulting in an initial purchase price (face value) of \$133,700. The factor charged a net program fee of \$3,400, with additional offsets of \$58,500, and a discount fee of \$8,747. The total loss on sale of receivables was \$12,147, resulting in net cash proceeds of \$63,053.

Supplementary Information

HIGHLAND ACADEMY CHARTER SCHOOL

Organizational Structure

June 30, 2014

Highland Academy Charter School (Charter #1493) was formed pursuant to Education Code Section 47600 under an agreement with Beaumont Unified School District granted in June 2013. The agreement expires on June 30, 2016. The Academy offers classroom-based instruction in grades 6-8 and non-classroom based instruction in kindergarten and grades 1-5. The Academy operated one school site during the year.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Kerrie Fairchild	President	Two Year Term Expires June 2015
William McIntosh	CFO/ Community Member	Two Year Term Expires December 2014
Matthew Croad	Secretary/Community Member	Two Year Term Expires December 2015
Margarita Garcia	Community Member	Two Year Term Expires March 2016
James Neilson	Community Member	Two Year Term Expires June 2015

ADMINISTRATION

Brent Bishop,
Director/Chief Business Officer

HIGHLAND ACADEMY CHARTER SCHOOL

Schedule of Average Daily Attendance For the Fiscal Year Ended June 30, 2014

	Second Period Report - Original (Certificate No. 41BB0411)			Second Period Report - Final Adjusted* (Certificate No. A6755703)		
	Classroom Based	Non-Classroom Based	Total	Classroom Based	Non-Classroom Based	Total
Transitional Kindergarten/Kindergarten Through 3	-	13.84	13.84	-	9.36	9.36
Grades 4 Through 6	74.40	7.87	82.27	74.48	5.41	79.89
Grades 7 and 8	48.85	-	48.85	48.92	-	48.92
Total Average Daily Attendance	123.25	21.71	144.96	123.40	14.77	138.17

	Annual Report - Final** (Certificate No. 40CB6EF5)		
	Classroom Based	Non-Classroom Based	Total
Transitional Kindergarten/Kindergarten Through 3	-	6.92	6.92
Grades 4 Through 6	74.24	4.04	78.28
Grades 7 and 8	48.21	-	48.21
Total Average Daily Attendance	122.45	10.96	133.41

* The Charter's originally filed P2 report was revised to reflect the removal of ADA as a result of an audit finding regarding independent study contracts.

** The Charter removed independent study ADA as a result of an audit finding prior to filing the annual report and thus only filed one final report.

Average daily attendance is a measurement of the number of pupils attending classes of the 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.

HIGHLAND ACADEMY CHARTER SCHOOL

Schedule of Instructional Time

For the Fiscal Year Ended June 30, 2014

Highland Academy Charter School provides both classroom and non-classroom based instruction. The following is the Schedule of Instructional Time for the Academy's classroom based classes.

Grade Level	1986-87 Minutes		2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
	Previously Required	Reduced*			
Kindergarten**	36,000	34,971	N/A	180	N/A
Grade 1**	50,400	48,960	N/A	180	N/A
Grade 2**	50,400	48,960	N/A	180	N/A
Grade 3**	50,400	48,960	N/A	180	N/A
Grade 4**	54,000	52,457	N/A	180	N/A
Grade 5**	54,000	52,457	N/A	180	N/A
Grade 6	54,000	52,457	54,718	180	Complied
Grade 7	54,000	52,457	54,718	180	Complied
Grade 8	54,000	52,457	54,718	180	Complied

* Amounts reduced as permitted by Education Code Section 46201.2 (a).

** The Academy does not offer classroom-based instruction at these grade levels.

This schedule presents information on the amount of instructional time offered by the Academy and whether the Academy complied with the provisions of Education Code Sections 46200 through 46206.

HIGHLAND ACADEMY CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind (NCLB):			
Title V, Part B, Public Charter Schools Grant Program (PCSGP)	84.282A	14941	\$ 202,500
Total U.S. Department of Education			<u>\$ 202,500</u>

The schedule of expenditures of Federal awards includes the Federal grant activity of the Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. Of the Federal expenditures presented in the schedule, the Academy provided no Federal awards to subrecipients.

HIGHLAND ACADEMY CHARTER SCHOOL*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2014*

	<u>Statement of Financial Position</u>
June 30, 2014 annual financial and budget report net assets	\$ 291,081
Adjustments and reclassifications:	
Increase (decrease) in net assets:	
Equipment underreported	22,905
Depreciation underreported	(5,556)
Accounts payable underaccrued	(84,456)
Prepaid expenses underaccrued	4,456
Revenues overreported	(431,221)
Expenses overreported	205,907
Payroll liabilities underaccrued	(68,455)
Accounts receivables understated	13,298
Current loans overstated	55,700
	<hr/>
Net adjustments and reclassifications	(287,422)
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June 30, 2014 audited financial statement	\$ 3,659
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Other Independent Auditors' Reports



INDEPENDENT AUDITORS' 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
Highland Academy Charter School
Beaumont, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Academy Charter School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Highland Academy Charter School's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 School'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. We consider the deficiencies described in the accompanying schedule of findings and recommendations as Findings 2014-1 and 2014-2 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a significant deficiency as Finding 2014-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as Findings 2014-4 and 2014-5.

Highland Academy Charter School's Responses to Findings

Highland Academy Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. Highland Academy Charter School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
December 1, 2014



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Highland Academy Charter School
Beaumont, California

Report on Compliance for State Programs

We have audited Highland Academy Charter School's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. Highland Academy Charter School's state programs are identified below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Highland Academy Charter School's State programs based on our audit of the types of compliance requirements referred to below. 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 Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14. 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 below occurred. An audit includes examining, on a test basis, evidence about Highland Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each State program. However, our audit does not provide a legal determination of Highland Academy Charter School's compliance.

Table with 3 columns: Description, Procedures in Audit Guide, and Procedures Performed. Rows include Local Control Funding Formula Certification, California Clean Energy Jobs Act, After School Education and Safety Program, Education Protection Account Funds, Common Core Implementation Funds, and Unduplicated Local Control Funding Formula Pupil Counts.

Description	Procedures in Audit Guide	Procedures Performed
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Yes
Determination of Funding for Nonclassroom-Based Instruction	3	Yes
Annual Instructional Minutes – Classroom Based	4	Yes
Charter School Facility Grant Program	1	Not Applicable

Opinion on Compliance with State Programs

In our opinion, Highland Academy Charter School complied, in all material respects with the compliance requirements referred to above for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above, which are required to be reported in accordance with *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, and which are described in the accompanying schedule of findings and recommendations as Findings 2014-4 and 2014-5.

Highland Academy Charter School's Response to Findings

Highland Academy Charter School's responses to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and recommendations. Highland Academy Charter School's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.



Murrieta, California
December 1, 2014

Findings and Recommendations

HIGHLAND ACADEMY CHARTER SCHOOL
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Modified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>Yes</u>

Federal Awards

Not applicable; the Academy expended less than \$500,000 in federal awards in the fiscal year 2013-14.

State Awards

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

HIGHLAND ACADEMY CHARTER SCHOOL
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2014-1: Functional Expenses (30000)

Condition: The Academy is required by FASB ASC 958-720-05-4 to report expenses by function. The Academy does not have a chart of accounts established within the QuickBooks accounting software to classify expenses on a functional basis. In addition, the accounting system makes it difficult to separate temporarily restricted revenues from unrestricted revenues.

Recommendation: The Academy should allocate costs among the instructional program and supporting services benefited in order to report expenses by function.

Response: As of July 1, 2014 the Academy contracted with a charter school financial management provider to assist with all accounting transactions.

HIGHLAND ACADEMY CHARTER SCHOOL
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2014-2: Personnel are Not Knowledgeable About GAAP (Generally Accepted Accounting Principles) (30000)

Condition: Management relies upon the auditor to recommend footnote disclosures for the financial statements and to prepare for approval and record adjusting entries to convert the Academy's financial statements from the cash basis of accounting to the accrual basis of accounting. Statement of Auditing Standards No. 112 states that the auditor may not be part of the Academy's internal control system. An individual from the Academy should be knowledgeable in generally accepted accounting principles and capable of preparing financial statements in conformity with generally accepted accounting principles. The Academy does not have either an employee educated in generally accepted accounting principles or an accounting firm engaged to prepare financial statements in conformity with generally accepted accounting principles.

Recommendation: The Academy should consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or hiring an independent CPA firm to compile financial statements in conformity with generally accepted accounting principles.

Response: As of July 2014, the Academy contracted with a charter school financial management provider to assist with all accounting transactions and GAAP reporting.

Finding 2014-3: Segregation of Duties (30000)

Condition: It was determined through inquiry that the administrative assistant who opens the mail to receive checks also issues the receipt and prepares the deposit. Also, this same individual can add and remove vendors in the accounting system without any formal approval from a supervisor.

Recommendation: The Academy should design and implement effective segregation of duties policies and procedures so as to prevent or detect any material misstatements in the financial statements in a timely manner. This also mitigates the risk of misappropriation of assets.

Response: The Academy will seek to involve other administrative staff in the cash receipts and purchasing process so as to increase segregation of duties.

HIGHLAND ACADEMY CHARTER SCHOOL
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2014

SECTION III - STATE AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings pertaining to noncompliance with State program rules and regulations.

Finding 2014-4: Independent Study Contracts (40000)

Criteria: No ADA may be claimed for independent study until a written agreement is completed pursuant to Education Code Section 51747 (c)(8). A written agreement may not exceed one semester. Attendance reports should be reviewed by someone other than the person preparing them to ensure their accuracy.

Condition: The Academy was unable to provide documentation providing evidence of contemporaneous written agreements for independent study for the second semester of the school year. However, the Academy was able to provide these agreements for the first semester.

Questioned Cost: The total independent study ADA reported for the period January through June 2014 was 6.79 and is disallowed. Total disallowed funding is \$35,504.

Context: This error is isolated to the January - June 2014 agreements only. The Academy has provided agreements for all other periods. Independent study ADA was removed in the P2 revised attendance report.

Effect: The Academy will forfeit funding for the independent study ADA in question.

Cause: The Academy administration was unaware of the requirement to administer independent study agreements for the period in question.

Recommendation: We recommend that independent study agreements are administered semi-annually for each school year. We recommend that the Academy apply for a waiver to the authorizing agency.

Response: The Academy has contacted the authorizing agency regarding the availability of applying for a waiver. They have revised the P2 report to reflect the removal of all full-time independent study ADA in question.

HIGHLAND ACADEMY CHARTER SCHOOL
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2014

SECTION III - STATE AWARD FINDINGS AND RECOMMENDATIONS (continued)

Finding 2014-5: Independent Study Contracts (40000)

Criteria: Pursuant to Education Code Section 51747 (c) and the California Code of Regulations, Title 5, Section 11702, independent study written agreements must be signed and dated prior to the commencement of study and the written agreements must contain all the required elements: (a) the manner, time, frequency, and place for submitting student's assignments and for reporting his or her progress; (b) the objectives and methods of study; (c) the methods utilized to evaluate student's work; (d) the specific resources, including materials and personnel, to be made available to the students; (e) a statement stating the maximum length of time allowed between the assignment and the completion of a student's assigned work and the number of assignments a student may miss before there must be an evaluation of whether it is in the student's best interests to continue in independent study; (f) the duration of the independent study agreement, including beginning and ending dates for the student's participation in independent study under the agreement, with no agreement being for a period longer than one semester, or one-half year for a school on a year-round calendar; (g) a statement of the number of course credits to be earned by the student upon completion; (h) a statement in each agreement that independent study is an optional educational alternative in which no student is required to participate; and (i) signatures affixed prior to the commencement of independent study, by the student, the student's parent or legal guardian, the certificated employee who has been designated as having responsibility for the general supervision of independent study, and all other persons who had direct responsibility for providing assistance to the student.

Condition: Independent study contracts tested lacked appropriate signatures, lacked written agreements, and lacked key elements of the written agreements as described above.

Questioned Cost: The total independent study ADA reported for these contracts is 0.38 and is disallowed. Total disallowed funding is \$241.

Context: Three short-term independent study contracts were lacking the key required elements.

Effect: The Academy will forfeit funding for the independent study ADA in question. Independent study ADA was removed in the P2 revised attendance report.

Cause: The Academy administration was unaware of the requirements to administer independent study agreements.

Recommendation: We recommend that independent study master agreements are revised to include all the required elements and appropriate signatures are obtained for each contract administered.

Response: The Academy has revised the P2 attendance report to reflect the removal of all disallowed independent study ADA in question.

HIGHLAND ACADEMY CHARTER SCHOOL
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2014

The Academy was not in operation in 2012-13.



Board of Directors
Highland Academy Charter School
Beaumont, California

In planning and performing our audit of the financial statements of Highland Academy Charter School as of and for the year ending June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Highland Academy Charter School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 1, 2014, on the financial statements of Highland Academy Charter School.

CASH RECEIPTS

Observation: It was determined through inquiry and observation that the cash collected is kept in a cash box in the Secretary's desk until the cash is deposited in the bank.

Recommendation: We recommend that cash should be restricted at all times. It should be kept in a locked, secure storage area such as a safe to which only a limited number of individuals have access to ensure the cash is properly secured and accounted for.

Observation: During our testing of cash receipts, we found that four of the five deposits tested lacked sufficient supporting documentation. Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct account. Sound internal controls for handling cash discourage theft of funds and protect those who handle the cash. It is important to tie all proceeds and to ensure that all proceeds from an event are turned in and properly accounted for.

Recommendation: We recommend that the Academy establish procedures that will allow for the reconciliation of money collected.

BANK RECONCILIATIONS

Observation: It was determined through inquiry and observation that either the Program Director or the Secretary will perform the bank reconciliations. After the reconciliation is completed, there is no review of the reconciliation for accuracy by someone other than who prepared it. The lack of review by another person can lead to not identifying errors in a timely manner and their potential causes, in addition to not identifying any fraudulent activity. Additionally, the Academy is not performing bank reconciliations for several savings accounts and does not archive previous reconciliations of accounts.

Recommendation: We recommend that someone other than the preparer review the bank reconciliations to ensure accuracy and prevent any misappropriation of funds due to fraud. Also, we recommend that reconciliations be performed for all bank accounts and that they be archived for future reference.

CASH DISBURSEMENTS

Observation: During our test of expenditures, we noted several weaknesses in internal controls over the process. We noted that seven out of twenty-six expenditures had insufficient or no supporting documentation. Three expenditures should have been capitalized instead of being recorded as an expense of the period. Two expenditures were classified to an improper account code.

Recommendation: The Academy should always obtain and archive adequate supporting documentation for cash disbursements, including an associated purchase order, invoice and receiving report, if applicable. The Academy should be aware of its capitalization policy and should identify and capitalize all related expenditures subject to this policy. Also, the Academy should be familiar with the Standardized Account Code Structure applicable to California charter schools, available from the California Department of Education.

INFORMATION TECHNOLOGY

Observation: During the inquiry and observation of the Academy's general computer controls, we found that the Charter does not regularly perform file recovery procedures and does not have a formal, communicated password policy. Without file recovery procedures performed, the risk of data loss is increased. Without a communicated password policy, including characters and required change intervals, the threat of data misuse and unpermitted access is higher.

Recommendation: The Academy should perform file recovery procedures at least annually and should have a password policy that is consistent and communicated to all staff with specific parameters for length/characters.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Academy, and is not intended to be, and should not be, used by anyone other than these specified parties.

We will review the status of the current year comments during our next audit engagement.



Murrieta, California
December 1, 2014