



AUDIT REPORT

**For the Year Ended
June 30, 2016**

DRAFT

EAST BAY INNOVATION ACADEMY
TABLE OF CONTENTS
JUNE 30, 2016

FINANCIAL SECTION

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

SUPPLEMENTARY INFORMATION SECTION

Charter Organizational Structure.....	14
Schedule of Average Daily Attendance	15
Schedule of Instructional Time.....	16
Reconciliation of Financial Report – Alternative Form with Audited Financial Statements.....	17
Notes to the Supplementary Information	18

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>	19
Report on State Compliance	21

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	23
Financial Statement Findings.....	24
State Award Findings and Questioned Costs.....	25
Summary Schedule of Prior Audit Findings and Questioned Costs.....	26

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
East Bay Innovation Academy
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of East Bay Innovation Academy (the "Charter") which comprise the statement of financial position as of June 30, 2016, 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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Bay Innovation Academy as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **October 21, 2016**, on our consideration of the Charter'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 Charter's internal control over financial reporting and compliance.

San Diego, California

October 21, 2016

EAST BAY INNOVATION ACADEMY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current assets

Cash and cash equivalents	\$ 391,575
Accounts receivable	550,975
Prepaid expenses	27,880
Total Assets	<u>\$ 970,430</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 129,792
Deferred revenue	200,000
Loans payable	200,002
Total liabilities	<u>529,794</u>

Net assets

Unrestricted	390,258
Temporarily restricted	50,378
Total net assets	<u>440,636</u>
Total Liabilities and Net Assets	<u>\$ 970,430</u>

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**EAST BAY INNOVATION ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 1,821,713	\$ -	\$ 1,821,713
Federal revenues	280,495	-	280,495
Other state revenues	371,561	65,043	436,604
Total federal and state support and revenues	2,473,769	65,043	2,538,812
Local support and revenues			
Payments in lieu of property taxes	683,444	-	683,444
Grants and donations	117,488	-	117,488
Other local revenues	88,245	-	88,245
Total local support and revenues	889,177	-	889,177
Donor restrictions satisfied	14,665	(14,665)	-
Total Support and Revenues	3,377,611	50,378	3,427,989
EXPENSES			
Program services	2,634,583	-	2,634,583
Supporting services			
Management and general	387,147	-	387,147
Total Expenses	3,021,730	-	3,021,730
CHANGE IN NET ASSETS	355,881	50,378	406,259
Net Assets - Beginning	34,377	-	34,377
Net Assets - Ending	\$ 390,258	\$ 50,378	\$ 440,636

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

**EAST BAY INNOVATION ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 1,179,706	\$ 28,620	\$ 1,208,326
Classified salaries	275,879	12,811	288,690
Deferred compensation	110,519	2,728	113,247
Payroll taxes	60,728	1,314	62,042
Other employee benefits	102,980	2,979	105,959
Total personnel expenses	1,729,812	48,452	1,778,264
Non-personnel expenses			
Books and supplies	260,579	15,801	276,380
Insurance	-	13,375	13,375
Occupancy	51,633	68,396	120,029
Professional services	458,496	215,645	674,141
Payments to authorizing agency	104,226	25,066	129,292
Other operating expenses	29,837	412	30,249
Total non-personnel expenses	904,771	338,695	1,243,466
Total Expenses	\$ 2,634,583	\$ 387,147	\$ 3,021,730

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

**EAST BAY INNOVATION ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 406,259
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
(Increase) decrease in operating assets	
Accounts receivable	(317,321)
Prepaid expenses	(19,393)
Increase (decrease) in operating liabilities	
Accounts payable	38,822
Deferred revenue	200,000
Net cash provided by (used in) operating activities	<u>308,367</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Draw on loans payable	226,517
Payments of principal on loans payable	<u>(276,515)</u>
Net cash provided by (used in) financing activities	<u>(49,998)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	258,369
Cash and cash equivalents - Beginning	<u>133,206</u>
Cash and cash equivalents - Ending	<u>\$ 391,575</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 7,873</u>

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

**EAST BAY INNOVATION ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

East Bay Innovation Academy (the “Charter”) was formed as a nonprofit public benefit corporation on April 4, 2013 for the purpose of operating as a California public school located in Alameda County. The Charter was approved by the State Board of Education in January 2014 as California Charter No. 1620. The Charter’s mission is to prepare a diverse group of students to be successful in college and to be thoughtful, engaged citizens who are leaders and innovators in a 21st century global world. Classes began on August 18, 2014 for grades 6 and 7 and the Charter began serving grade 8 in the 2015-16 school year.

East Bay Innovation Academy is authorized to operate as a charter school through Oakland Unified School District (the “authorizing agency”). On October 23, 2013, the Board of Directors of Oakland Unified School District approved a charter petition for the Charter for a five year term beginning July 1, 2014 and expiring on June 30, 2019. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

B. Basis of Accounting

The Charter’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. Financial Statement Presentation

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

D. 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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.

F. Contributions

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

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

G. In Lieu of Property Taxes Revenue

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

H. Cash and Investments

East Bay Innovation Academy considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents. The Charter'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.

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 Charter establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2016, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Capital Assets

East Bay Innovation Academy has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or is requiring the Charter to hold the asset for a specified period of time. Capital assets are depreciated using the straight-line method.

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

East Bay Innovation Academy 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 Charter is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, the Charter is not required to register with the California Attorney General as a charity.

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

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.

EAST BAY INNOVATION ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2016, consist of the following:

Cash in banks, non-interest bearing	\$	387,977
Cash in banks, interest bearing		3,598
Total Cash and Cash Equivalents	\$	391,575

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. East Bay Innovation Academy does not have a policy for custodial credit risk for deposits. The FDIC insures 100% of non-interest bearing accounts and up to \$250,000 per depositor on interest bearing accounts per insured bank. As of June 30, 2016, \$238,726 of East Bay Innovation Academy’s bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held with Wells Fargo Bank.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016, consists of the following:

Local control funding state sources	\$	198,191
Federal sources		118,392
Other state sources		133,253
In lieu of property taxes		100,802
Local grants receivable		337
Total Accounts Receivable	\$	550,975

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2016, consists of the following:

Salaries and benefits payable	\$	32,869
Vendors payable		58,794
Compensated absences		23,358
Overpayment of revenue		14,584
Credit card liabilities		187
Total Accounts Payable	\$	129,792

EAST BAY INNOVATION ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 5 – LOANS PAYABLE

Loans payable activity during the fiscal year ending June 30, 2016, consists of the following:

	Balance				Balance
	July 1, 2015	Draws	Payments		June 30, 2016
Secured loan	\$ -	\$ 226,517	\$ 226,517	\$	-
Charter revolving loan	250,000	-	49,998	\$	200,002
Total Loans Payable	\$ 250,000	\$ 226,517	\$ 276,515	\$	200,002

During the fiscal year ending June 30, 2016, the Charter entered into a receivables purchase agreement with Charter School Capital, Inc. (the “purchaser”). On September 14, 2015, \$226,517 was transferred from the purchaser to the Charter. In return for receiving such funds, the Charter granted title and interest of future state apportionment revenues to the purchaser and agreed to a one-time program fee of \$2,218. The transfers from the purchaser to the Charter are considered loans secured by the future receivables due to East Bay Innovation Academy. The purpose of the agreement was for short-term borrowing to aid in cash flow for current charter school operations. The purchaser received funding in December 2015 and January 2016. As of June 30, 2016, there is no balance due to the purchaser relating to this secured loan.

In June 2014, the Charter was approved to borrow \$250,000 through the Charter School Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The loan is to be repaid over a five year period ending September 2019. The revolving note bears an annualized interest rate equal to the “prime rate” of 0.24%. Repayment of the loan began in September 2015. As of June 30, 2016, the outstanding balance on the loan was \$200,002. Repayment obligations on the above referenced debt are as follows:

<u>Fiscal year ended June 30,</u>	<u>Payment</u>
2017	\$ 50,000
2018	50,000
2019	50,000
2020	50,002
Total Loans Payable	\$ 200,002

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 consisted of \$50,378 from restricted State funding for the Proposition 39 California Clean Energy Jobs Act program.

NOTE 7 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to East Bay Innovation Academy in an effort to advance the Charter’s programs and objectives. These services have not been recorded in the Charter’s financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 8 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers’ Retirement System (CalSTRS). The Charter also offers all employees social security as an alternative plan who may not qualify for the CalSTRS retirement plan.

California State Teachers’ Retirement System (CalSTRS)

Plan Description

East Bay Innovation 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 CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.56% of their salary for the fiscal year ending June 30, 2016. The required employer contribution rate for fiscal year 2015-16 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter’s contributions to CalSTRS for the first two years of operation are as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2015-16	\$ 113,247	100%
2014-15	\$ 65,059	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; however, as East Bay Innovation Academy was not yet in operation during 2013-14, no on-behalf payments were made during 2015-16. East Bay Innovation Academy will become eligible to receive on-behalf payments beginning in 2016-17.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Multi-employer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Charter’s voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Charter to make payments to the plan, which would approximate the Charter’s proportionate share of the multiemployer plan’s unfunded vested liabilities. CalSTRS has estimated the Charter’s share of withdrawal liability is approximately \$1,103,744 as of June 30, 2015. Refer to Note 8 for additional information on employee retirement plans.

**EAST BAY INNOVATION ACADEMY
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 9 – COMMITMENTS AND CONTINGENCIES (continued)

Governmental Funds

East Bay Innovation Academy 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.

Facilities Use Agreement

In June 2015, the Charter entered into a renewed facilities use agreement with Oakland Unified School District to occupy space located at 3400 Malcolm Avenue in Oakland, California. The facility is utilized by the Charter for instructional services in order to meet the educational goals established by the Charter. The agreement covers the period from July 1, 2015 to June 30, 2016 with an option to renew for one year at the Charter's discretion subject to any early termination if the Charter's program ceases to operate after a revocation, nonrenewal or surrender of the charter petition. Total lease payments associated with this facility use agreement amounted to \$104,226 during the fiscal year ended June 30, 2016. The annual facilities use fee for the fiscal year ending June 30, 2017 is \$104,226 and shall be paid quarterly.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Charter makes payments to the authorizing agency, Oakland Unified School District, to provide required services for oversight. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. For the fiscal year ending June 30, 2016, total fees paid to the authorizing agency for oversight amounted to \$25,066. The Charter also made payments to the Oakland Unified School District as part of a facility use agreement (refer to Note 9).

NOTE 11 – SUBSEQUENT EVENTS

East Bay Innovation Academy has evaluated subsequent events for the period from June 30, 2016 through **October 21, 2016**, the date the financial statements were available to be issued. In July 2015, the Charter entered into a facilities use agreement with Oakland Unified School District for additional classroom space located on Roosevelt Middle School's campus at 1926 East 19th Street in Oakland, California. The agreement covers a term of one school year for 2016-17 and will have an annual cost of \$32,971. Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

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**EAST BAY INNOVATION ACADEMY
 CHARTER ORGANIZATIONAL STRUCTURE
 JUNE 30, 2016**

East Bay Innovation Academy, located in Alameda County, was formed as a nonprofit public benefit corporation on April 4, 2013 and approved by the State Board of Education in January 2013. The Charter was authorized to operate as a charter school through Oakland Unified School District. Classes began on August 18, 2014 for grades 6 and 7. During 2015-16, the Charter served approximately 344 students in grades 6 through 8. East Bay Innovation Academy’s charter number is 1620.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Laurie Jacobson Jones	Chairperson	August 2016
Rochelle Benning	Vice Chair & Treasurer	August 2016
Kelly Garcia	Secretary	March 2019
Ken Berrick	Member	October 2017
Gary Borden	Member	December 2017
Tom Pryor	Chair - Board Expansion	May 2017

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ADMINISTRATION

Devin Krugman
Head of School

Renee Cooper
Director of Business Operations

Lansine Toure
Director of Equity & Social Emotional Learning

**EAST BAY INNOVATION ACADEMY
 SCHEDULE OF AVERAGE DAILY ATENDANCE
 FOR THE YEAR ENDED JUNE 30, 2016**

Grade Span	Classroom Based	
	Second Period	Annual Report
	Report	Report
Regular		
Fourth through sixth	112.65	112.83
Seventh through eighth	218.05	218.00
Special Education		
Seventh through eighth	0.80	1.01
Total Average Daily Attendance - Classroom Based	331.50	331.84

The Charter had no Non-Classroom Based ADA in 2015-16.

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EAST BAY INNOVATION ACADEMY
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

<u>Grade Span</u>	<u>Minutes Requirement</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grades 6 through 8	54,000	63,345	186	Complied

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**EAST BAY INNOVATION ACADEMY
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
JUNE 30, 2016**

June 30, 2016, fund balance per alternative form	<u>\$ 477,576</u>
Adjustments:	
Increase (decrease) in total net assets:	
Reclass prepaid expenses to current year expenses	(13,582)
Record employee vacation accrual (compensated absences)	<u>(23,358)</u>
Total adjustments	<u>(36,940)</u>
June 30, 2016, net assets per audited financial statements	<u>\$ 440,636</u>

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NOTE 1 – PURPOSE OF SCHEDULES

A. Charter Organizational Structure

This schedule provides information about the Charter’s authorizing agency, grades served, members of the governing body, and members of the administration.

B. 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.

C. Schedule of Instructional Time

East Bay Innovation Academy 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 East Bay Innovation Academy and whether the Charter complied with the provisions of *Education Code Section 46200 through 46208*.

D. Reconciliation of Annual Financial Report – Alternative Form and Budget Report with Audited Financial Statements

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

**OTHER INDEPENDENT AUDITORS'
REPORTS**

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**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 Directors of
East Bay Innovation Academy
Oakland, 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 East Bay Innovation Academy (the "Charter") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated **October 21, 2016**.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter'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 Charter's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter'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 Charter’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter’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 Charter’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Diego, California

October 21, 2016

DRAFT

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Directors of
East Bay Innovation Academy
Oakland, California

Report on State Compliance

We have audited East Bay Innovation Academy's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of East Bay Innovation Academy's state programs for the fiscal year ended June 30, 2016, 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

Our responsibility is to express an opinion on compliance for each of East Bay Innovation Academy's 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 *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. 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. An audit includes examining, on a test basis, evidence about East Bay Innovation Academy'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 with the requirements referred to above. However, our audit does not provide a legal determination of East Bay Innovation Academy's compliance with those requirements.

Opinion on State Compliance

In our opinion, East Bay Innovation Academy complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine East Bay Innovation Academy’s compliance with the state laws and regulations applicable to the following items:

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

We did not perform procedures related to California Clean Energy Jobs Act because no expenditures nor completed projects during 2015-16.

San Diego, California
 October 21, 2016

**FINDINGS AND QUESTIONED COSTS
SECTION**

DRAFT

**EAST BAY INNOVATION ACADEMY
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Statements

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

Federal Awards

The Charter did not expend more than \$750,000 in federal awards; therefore, a Federal Single Audit under OMB Uniform Guidance is not applicable.

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for state programs:	Unmodified

DRAFT

EAST BAY INNOVATION ACADEMY
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no audit findings related to the financial statements during 2015-16.

DRAFT

EAST BAY INNOVATION ACADEMY
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

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 2015-16.

DRAFT

**EAST BAY INNOVATION ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING 2015-1: PAYROLL CONTROLS (30000)

Criteria: Proper internal control procedures are important when recording, preparing and distributing payroll. Time sheets or timecards should be signed by the employee; then reviewed, approved and signed by a supervisor, when applicable. Additionally, salary schedules or employment contracts should be maintained for all employees to document the budgeted and approved pay rate(s), which should match the actual pay rate(s) used for payroll processing.

Condition: In our testing of internal controls over payroll processing, we noted exceptions in payroll for two (2) of eight (8) sampled employees. Timesheets were not available for two (2) employees for two (2) separate payroll periods. Additionally, no documentation was available for a pay increase for one (1) hourly employee.

Cause: Improper record retention or lack of enforcing payroll controls.

Effect: Potential risk of improper compensation to employees.

Recommendation: We recommend that timesheets be collected, approved, and retained for all hourly employees. Additionally, we recommend that documentation of approved pay rate or change in pay rates be collected and retained for each employee.

Charter's Response: Upon communication of the finding, all timesheets are being maintained with payroll reports for the applicable time period from our external payroll processor by the Director of Operations. All timesheets are signed by employee as well as reviewed and signed by supervisor prior to submission to Director of Operations for payment processing. Pay increases are documented through an offer to the employee in writing and maintained in personnel file.

Current Status: Implemented

EAST BAY INNOVATION ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2015-2: ATTENDANCE (10000 & 30000)

Criteria: Regular class attendance submitted to the California Department of Education (CDE) should reconcile to the supporting documents that support the local education agency's Average Daily Attendance (ADA) in accordance with *California Education Code Section 46000 et seq.* Proper controls over attendance reporting ensure that ADA reported to the CDE is supported by written contemporaneous data origination documentation of all pupil attendance. Beginning in 2009-10, the CDE allowed for approved school districts and county offices to replace manual teacher signatures with digital signatures or other electronic certification processes. This approval does not currently extend to charter schools.

Condition: Based on inquiry and observation, no physical records of attendance have been generated from the attendance accounting software for timely review and approval by the certificated personnel who initially recorded the attendance data within the system. Additional audit procedures over absence notes were performed and reported attendance was deemed verifiable despite the absence of contemporaneous signed teacher rosters.

Effect: The Charter is not in compliance with State requirements regarding attendance reporting and record retention. Errors or anomalies in system information could go unnoticed without timely review of submitted data.

Cause: Records to support contemporaneous data origination of student attendance are maintained electronically and not reviewed after initial submission within the attendance accounting system.

Questioned Cost: There is no questioned cost as no ADA was inappropriately reported.

Recommendation: It is recommended that physical contemporaneous records be maintained. Pupil attendance records should include teachers signing and dating timely printouts of electronic attendance data previously entered into the attendance system.

Charter's Response: Upon communication of the finding, EBIA's Office Manager prints weekly attendance reports for each reporting teacher to certify accuracy. These records are signed by the reporting teacher and maintained on premises and are also scanned to maintain an electronic record backup. All records will be made available during annual audit when requested.

Current Status: Implemented