



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

January 9, 2015

State Controller's Office
Division of Audits
Financial Audits Bureau - Education
Oversight Unit
Via PDF to <ftp://ftp.sco.ca.gov/>

To Whom It May Concern:

The following is the electronic version (pdf) of the annual financial report for the American Indian Public Charter School II for the year ended June 30, 2014.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Xiupin Guillaume'.

Xiupin Guillaume
of VAVRINEK, TRINE, DAY & CO., LLP

XG/mcg

RECEIVED

By eapodaca at 10:07 am, Jan 12, 2015

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**FINANCIAL STATEMENTS
JUNE 30, 2014
WITH
INDEPENDENT AUDITOR'S REPORT**

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
American Indian Public Charter School II
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of American Indian Public Charter School II (the School) (A California Non-Profit Public Corporation), which are comprised of the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows, and functional expenses 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; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, 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 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 School'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 School'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 the School as of June 30, 2014, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 January 5, 2015, on our consideration of the 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.

Vavrinek, Time, Day & Co., LLP

Pleasanton, California
January 5, 2015

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Cash and cash equivalents	\$	311,709
Accounts receivable		988,112
Other assets		18,500
Prepaid expenses		1,956
Equipment, net of accumulated depreciation		8,513,547
Total Assets	\$	<u>9,833,824</u>

LIABILITIES

Accounts payable	\$	23,848
Current loans		4,500,000
Intercompany payable		1,208,498
Loan payable - long-term		1,500,000
Total Liabilities		<u>7,232,346</u>

NET ASSETS

Unrestricted		<u>2,601,478</u>
Total Net Assets		<u>2,601,478</u>
Total Liabilities and Net Assets	\$	<u>9,833,824</u>

See the accompanying notes to financial statements.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Support and Revenues	
General apportionment	\$ 2,222,885
Other federal revenue	230,742
Other state revenues	545,920
Other local revenues	849,881
Total support and revenues	<u>3,849,428</u>
Expenses	
Program services	
Academic programs	2,382,693
Supporting Services	
Management and general	741,198
Total program and supporting services	<u>3,123,891</u>
CHANGE IN NET ASSETS	725,537
NET ASSETS, BEGINNING OF YEAR	<u>1,875,941</u>
NET ASSETS, END OF YEAR	<u>\$ 2,601,478</u>

See the accompanying notes to financial statements.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Academic Programs	Management and General	Total Expenses
Salaries and benefits	\$ 1,401,840	\$ 292,540	\$ 1,694,380
Advertising/recruiting	1,872	411	2,283
Books and supplies	60,721	7,851	68,572
Banking and payroll service fees	6,597	1,448	8,045
Depreciation	-	113,859	113,859
Dues and fees	547	120	667
Equipment rental	11,661	2,560	14,221
Field trips	2,376	-	2,376
Food and food supplies	386	-	386
Insurance	28,154	6,180	34,334
Janitorial	33,151	7,277	40,428
Interest expense	4,157	912	5,069
Debt service - interest	-	144,062	144,062
Miscellaneous	(1,369)	-	(1,369)
Occupancy	269,161	59,084	328,245
OUSD 1% oversight fee	-	30,456	30,456
Professional development	6,547	39	6,586
Professional fees	273,898	49,723	323,621
Repair and maintenance	19,324	4,242	23,566
Special education encroachment	163,953	-	163,953
Scholarship	6,628	-	6,628
Communication	23,163	5,085	28,248
Utilities	69,926	15,349	85,275
Total Expenses	<u>\$ 2,382,693</u>	<u>\$ 741,198</u>	<u>\$ 3,123,891</u>

See the accompanying notes to financial statements.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 725,537
Adjustments to reconcile change in net assets to net cash provided by operations	
Depreciation	113,859
Beginning net assets and fixed asset adjustments	
Change in operating assets and liabilities	
Accounts receivable	1,036,508
Other assets	3,382
Prepaid expenses	(1,956)
Accounts payable	(476,249)
Intercompany payable	1,208,498
Net Cash Provided for Operating Activities	<u>2,609,579</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	<u>(8,170,903)</u>
Net Cash Used by Investing Activities	<u>(8,170,903)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Current loan	4,350,000
Notes payable	<u>1,500,000</u>
Net Cash Provided by Financing Activities	<u>5,850,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	288,676
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>23,033</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 311,709</u>

See the accompanying notes to financial statements.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The American Indian Public Charter School II (the School) was incorporated in the State of California in 2000 as a nonprofit public benefit corporation that is organized under the Nonprofit Public Benefit Corporation Law exclusively for charitable and educational purposes within the meaning of 501(c)(3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States internal revenue law. It is one of the education arms of the non-profit American Indian Model Schools (charter number 0882). The School is operating under a charter granted by the Oakland Unified School District that expires on June 30, 2016.

The primarily objective and purpose of the School is to meet the academic social, cultural and developmental needs of American Indian students, and all students, in an environment that respects the integrity of the individual student and diverse cultures and knowledge and which creates educational partnerships among teachers, students, parents, and the wider community consisting of individuals, businesses, institutions, and cultural organizations on grade levels Kindergarten through 8.

Financial Statement Presentation

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) ASC 958-210-50. Under ASC 958-210-50, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the School is required to present a statement of cash flows. Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting.

Financial Reporting Entity

The accompanying financial statements present only the financial activities of the School and are not intended to present fairly the financial position and the results of operations of American Indian Model Schools as a whole in conformity with accounting principles generally accepted in the United States of America.

Support and Expenses

Contributions are measured at their fair value at the date of contribution and are reported as an increase in net assets. The School reports gifts of cash or other assets in the category designated by the donor. The School reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulation about where the contributions are to be spent, the School reports these contributions as unrestricted.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Revenue Recognition

State Apportionment

The School's support is derived primarily from the State of California's public education monies received through the Oakland Unified School District and are recognized as revenues based on the average daily attendance (ADA) of students.

State and Federal Grants

The School also receives other educational government grants. Revenues are recognized when expenditures have been incurred in accordance with the grant agreement.

Property and Equipment

The School capitalized assets costing \$10,000 or more when purchased or donated. Capital assets are stated at cost, or if donated, at estimated fair value on the date of donation. Routine maintenance and repairs are charged to expense as incurred and major improvements are capitalized. Depreciation is computed on the straight line method over the estimated useful lives of the individual assets:

Leasehold Improvements	10 years
Furniture and Fixtures	5 years
Equipment	5 years

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash balances held in the bank are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2014, the School had bank balances of approximately \$169,000 in excess of the FDIC limit.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Allowance for Bad Debts

No allowance for bad debts was recorded. Management does not consider it is necessary to set up an allowance for bad debts as uncollectible receivables are written off when identified.

Income Taxes

The School is a nonprofit corporation that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1) (A)(vi). Income tax returns for 2010 and forward may be audited by regulatory agencies, however, the School is not aware of any such actions at this time.

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of the income tax expense, if applicable.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

NOTE #2 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 consisted of the following:

EPA funds	\$	195,485
State Aid		215,092
Property Tax		104,177
Lottery		50,438
General Apportionment		178,218
California School Facilities Grant		244,702
Total receivables	\$	<u>988,112</u>

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014, consisted of the following:

	Beginning of Year	Additions	Deletion/ Adjustments	End of Year
Land	\$ -	\$ 2,451,271	\$ -	\$ 2,451,271
Leasehold improvements	667,652	-	-	667,652
Building	-	5,719,632	-	5,719,632
Accumulated depreciation	(211,149)	(113,859)	-	(325,008)
	<u>\$ 456,503</u>	<u>\$ 8,057,044</u>	<u>\$ -</u>	<u>\$ 8,513,547</u>

The School recorded depreciation expense for the year ended June 30, 2014, was \$113,859.

NOTE #4 – ACCOUNTS PAYABLE

Accounts payables at June 30, 2014 consisted of the following:

Salaries & Benefits	\$ 3,995
Oakland Unified School District	19,853
Total payable	<u>\$ 23,848</u>

NOTE #5 - PENSION PLAN

During the year, the School contributed \$30,125 to CalPERS.

NOTE #6 - CURRENT LOAN AND NOTES PAYABLE

On February 7, 2014, the School borrowed \$4.5 million from Eagle Group Finances, L.P., a California limited partnership, to purchase the school building. The loan matures on February 7, 2015. The interest payment of \$38,020.83 per month is payable starting on April 1, 2014.

On January 22, 2014, the School issued a note payable to Lumbee Property, LLC for \$1.5 million with an interest rate of 6 percent (or \$7,500 per month) to help purchase the school building noted above. The Note matures on February 1, 2019.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #7 – COMMITMENTS AND CONTINGENCIES

Grants

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of the management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2014.

NOTE #8 – RISK AND UNCERTAINTY

The School is funded principally through the State of California’s public education monies, the California Department of Education and Oakland Unified School District, and various government agency grants. The charter may be revoked by the State of California for material violations of the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law. Any decreases in the state’s allocations for the School programs could have a material adverse effect on the School’s business, financial condition, and results of operations.

NOTE #9 – OTHER RELATED PARTY TRANSACTIONS

During the year, the School leased properties from American Delivery Systems (ADS) which is owned by the Founder of the Organization. In addition, the School had amounts due to and from the American Indian Model Schools for funds collected and expense reimbursement on behalf of the School. The balances for these activities as of June 30, 2014 are as follows:

Organization	Description	Amounts	
		Due From/(To)	Amount Paid To
American Delivery Systems (ADS)	Leasing properties	\$ -	\$ 328,245
American Indian Model Schools	Expense reimbursement	(5,592,527)	-
American Indian Model Schools	Grants and apportionment	4,384,029	-
	Total	<u>\$ (1,208,498)</u>	<u>\$ 328,245</u>

The School paid oversight fee in the amount of \$30,456 to Oakland Unified School District during the year.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #10 – SUBSEQUENT EVENTS

The School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through January 5, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTAL INFORMATION

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**ORGANIZATIONAL STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2014**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ronald Grant	President	July 2016
Nadir Bey	Vice President	July 2016
Jean Martinez	Vice President	May 2016
Jordan Locklear	Secretary	December 2016
Steven Leung	Treasurer	June 2016
Clarence Boyd, Jr.	Director	February 2018
Ping Chen	Director	February 2018

ADMINISTRATION

Ruben Ruiz	Director
Dianne Hatcher	Financial Director

See note to the supplementary information.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	Second period report			Annual		
	Average daily attendance	Classroom Based	Non-Classroom Based	Average daily attendance	Classroom Based	Non-Classroom Based
Kindergarten to 3	118	118	0	119	119	0
Grades 4 to 6	204	204	0	206	206	0
Grades 7 to 8	162	162	0	162	162	0
Total ADA	484	484	0	487	487	0

The School's operation is classroom based with no full time independent study program.

See note to the supplementary information.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2014**

Grade Level	1986-87 Minutes Requirement	Minimum Minutes Requirement	2013-14 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	34,971	60,210	180	Complied
Grades 1 - 3					
Grade 1	50,400	48,960	60,210	180	Complied
Grade 2	50,400	48,960	60,210	180	Complied
Grade 3	50,400	48,960	62,910	180	Complied
Grades 4 - 6					
Grade 4	54,000	52,457	62,910	180	Complied
Grade 5	54,000	52,457	67,446	180	Complied
Grade 6	54,000	52,457	67,446	180	Complied
Grades 7 - 8					
Grade 7	54,000	52,457	70,146	180	Complied
Grade 8	54,000	52,457	70,146	180	Complied

See note to the supplementary information.

**AMERICAN INDIAN PUBLIC CHARTER SCHOOL II
(A California Nonprofit Corporation)**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

Balance, June 30, 2014, Unaudited Actuals	\$ 2,102,619
Decrease cash	(100,934)
Increase accounts receivable	247,029
Increase property and equipment	27,236
Decrease accounts payable and accrued expenses	1,460,009
Increase in intercompany payables	(1,208,498)
Increase long-term liabilities	(38,020)
Decrease unearned revenue	112,037
Balance, June 30, 2014, Audited Financial Statements	<u>\$ 2,601,478</u>

See note to the supplementary information.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

NOTE TO SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Agency Organization Structure

This schedule provides information about the members of the governing board and the administration of the School.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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 the School. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the Unaudited Actual Financial Report to the audited financial statements.



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

The Board of Trustees
American Indian Public Charter School II
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 American Indian Public Charter School II (the School) (a 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 year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses 2014-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School's Response to Findings

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavinek, Time, Day & Co., LLP

Pleasanton, California
January 5, 2015



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

The Board of Trustees
American Indian Public Charter School II
Oakland, California

Report on State Compliance

We have audited American Indian Public Charter School II (the School)'s compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the School's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the School's State programs based on our audit of the types of compliance requirements referred to above. 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the 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 opinions. Our audit does not provide a legal determination of the School's compliance with those requirements.

Unmodified Opinion on Each of the State Programs Listed Below

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

In connection with the audit referred to above, we selected and tested transactions and records to determine the School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Not Applicable
Teacher Certification and Misassignments	3	Not Applicable
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Not Applicable
Instructional Materials:		
General Requirements	8	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Not Applicable
School Accountability Report Card	3	Not Applicable
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Yes
Charter School Facility Grant Program	1	Yes

Vavrinek, Time, Day & Co., LLP

Pleasanton, California
January 5, 2015

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

**SUMMARY OF AUDITORS RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>Not Applicable</u>
Significant deficiency identified?	<u>Not Applicable</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Not Applicable</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2014-001 Financial Reporting (30000)

Criteria or Specific Requirements

One element of an Organization's internal control over financial reporting is its ability to prepare financial statements from its trial balance in accordance with Generally Accepted Accounting Standards. This includes development of a system of internal control procedures that allow for accurate, timely closing of accounting records.

Condition

Significant Deficiencies – We noted several differences in the account balances that resulted in audit adjustments as noted on page 16 of this report. Most of the adjustments appear to be due to posting transactions to the general ledger after the fiscal year was closed and financial reports were submitted to the oversight agency.

Recommendation

We recommend that the Organization continue its effort in reconciling the balance sheet items during the year end closing process to ensure accurate reporting of the financial statements.

Corrective Action Plan

In fiscal year 2013-2014, American Indian processed accounts payable, credit card payments, and payroll while CSMC recorded the journal entries based on the information provided by American Indian. At times, information was delayed or not provided. CSMC and American Indian did not know what made up prior year balances because records were seized and CSMC took on the accounting mid-year.

Beginning this year, the corrective action plan is that CSMC will take over the processing of accounts payable, credit card payments, and payroll. American Indian will provide general ledger coding and necessary information/backup prior to account payables, credit card payments, and payroll being processed by CSMC. Finally, unexplained prior year balances will be investigated and documented. The implementation of accounts payable and payroll at CSMC, along with proper reconciliation of balance sheet items during the year and during the year end closing process, should result in accurate financial reporting in the future.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

2013-1 Financial Reporting (30000)

Criteria or Specific Requirements

One element of an Organization's internal control over financial reporting is its ability to prepare financial statements from its trial balance in accordance with Generally Accepted Accounting Standards. This includes development of a system of internal control procedures that allow for accurate, timely closing of accounting records.

Condition

Material Weakness – We noted several differences in the account balances that resulted in audit adjustments as noted on page 16 of this report. Most of the adjustments appear due to posting transactions to the general ledger after the fiscal year was closed and financial reports were submitted to the oversight agency.

Recommendation

We recommend the Organization develop a year end closing procedures checklist. This process should verify the balance in each balance sheet account as well as key income and expense accounts, when performing year end closing procedures. Year end closing procedures should be completed prior to the start of the external audit process to ensure the Organization's financial records present the current, accurate finances of the Organization.

Current Status

Not implemented, see current year finding 2014-001.

2013-2 Journal Entries (30000)

Criteria or Specific Requirements

As part of maintaining strong accounting practices and internal controls, it is important to maintain supporting documents for all journal entries posted to the general ledger. In addition, journal entries should be reviewed for appropriateness prior to posting.

Condition

Significant Deficiency - Documentation of supporting journal entries was not consistently maintained. In addition, there was no indication of who prepared and reviewed for the entries.

Recommendation

Journal entries directly impact the financial statements. In order to ensure that only properly authorized entries are posting the general ledger, we recommend that the organization implement procedures to ensure that supporting documentation is readily available to support the entries. In addition, there should be evidence of who prepared and reviewed and the date the entry was prepared and reviewed.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Current Status

Implemented.

2013-3 Compensated Absences (30000)

Criteria or Specific Requirements

Strong internal controls over the reporting of compensation involve the accumulation, review, and recording of compensated absences.

Condition

Significant Deficiency – We noted that the organization includes the compensated absences balance for each eligible employee on their pay stub prepared by an outside payroll company (ADP), however, the compensated absences earned and used for each employee was not summarized and reviewed for accuracy. The compensated absences liability calculation was not performed and the amount was not recorded in the financial statements at the end of the year.

Recommendation

The School should implement procedures to summarize compensated absences earned and used for each eligible employee. The balance of the compensated absences hours at each fiscal year end should be calculated to accurately report the liabilities of the School.

Current Status

Implemented.

2013-4 Expense Classification (30000)

Criteria or Specific Requirements

For financial reporting purposes, the organization is required to accurately classify expenses in accordance with the nature of the expense.

Condition

Significant Deficiency – we noted compensations for some hourly and part-time staff were coded to other operating expenses, instead of salary and benefits related expenses.

Recommendation

We recommend that the organization review the characteristics of employees versus contractors to ensure these individuals are being classified properly.

Current Status

Implemented.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

2013-5 Bank Reconciliation (30000)

Criteria or Specific Requirements

Best accounting practice and effective internal controls emphasize segregation of duties so that there are checks and balances in place to ensure financial information is properly recorded.

Condition

Significant Deficiency – we noted bank reconciliations were not reviewed by an independent person.

Recommendation

We recommend that the monthly bank reconciliation be reviewed by an independent person who has the knowledge of the transactions, so that errors and/or unusual activities can be noted and investigated timely. The reviewer should initial and date on the reconciliation as evidence of review.

Current Status

Implemented.

2013-6 Travel and Conference Expenses (30000)

Criteria or Specific Requirements

Best accounting practice and strong internal controls emphasize proper documentation and authorization be maintained prior to issuance of disbursement checks.

Condition

Significant Deficiency – we noted 1 reimbursement for travel expense in the amount of \$96 that was not supported by receipts.

Recommendation

We recommend that the organization adhere to its expense reimbursement policy to ensure only expenses with proper support and authorization are reimbursed.

Current Status

Implemented.

2013-7 Cash Receipts (30000)

Criteria or Specific Requirements

Best accounting practice and effective internal controls emphasize proper documentation for cash collections to ensure all funds collected are deposited intact and timely.

Condition

Significant Deficiency – we noted no procedures in place to ensure that all funds collected are deposited intact. There were no pre-numbered receipt books, receipt logs, or other equivalent documentation being used for cash collections. Therefore, it is difficult to determine whether all cash collected has been deposited intact and timely.

AMERICAN INDIAN PUBLIC CHARTER SCHOOL II

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Recommendation

We recommend that the organization implement procedures to properly document and track cash received. The information should include the date funds were received, the source, and the amount of the funds.

Current Status

Implemented.