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INDEPENDENT AUDITOR'S REPORT

Governing Board
Samueli Academy
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of Samueli Academy (the Academy) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, 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 opinions 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 the *2015-2016 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 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 Academy'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 Academy'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 opinions.

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Academy's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 6, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying 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 accompanying supplementary information 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 _____, 2016, on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

Preliminary DRAFT
For Discussion Purposes Only

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 605,572	\$ 530,059
Accounts receivable	453,191	211,303
Prepaid expenses	<u>79,881</u>	<u>66,358</u>
Total Current Assets	1,138,644	807,720
Fixed assets, net of accumulated depreciation	<u>251,097</u>	<u>165,534</u>
Total Assets	<u>\$ 1,389,741</u>	<u>\$ 973,254</u>
LIABILITIES		
Accounts payable	\$ 370,464	\$ 196,247
Inter-fund payable	2,675	12,186
Deferred revenue	16,670	14,000
Current portion of long-term obligations	<u>97,279</u>	<u>96,606</u>
Total Current Liabilities	<u>487,088</u>	<u>319,039</u>
Long-term Obligations:		
Revolving loan (Note 11)	-	83,333
Vehicle loan	<u>4,825</u>	<u>18,762</u>
Total Liabilities	<u>491,913</u>	<u>421,134</u>
NET ASSETS		
Unrestricted	860,160	552,120
Temporarily restricted	<u>37,668</u>	<u>-</u>
Total Net Assets	897,828	552,120
Total Liabilities and Net Assets	<u>\$ 1,389,741</u>	<u>973,254</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
REVENUES		
Support and Revenues		
Local Control Funding Formula	\$ 3,433,231	\$ 2,061,597
Federal revenue	288,524	338,203
State revenue	787,988	377,761
Local revenue		
Interest	1,564	418
Student activities	92,870	33,086
Special events, net	90,053	84,749
Contributions	553,951	566,578
In-kind contributions	161,430	130,828
Gain/(loss) sale of assets	-	(98,019)
Total Revenues	<u>5,409,611</u>	<u>3,495,201</u>
EXPENSES		
Program services	4,736,370	3,021,247
Fundraising	90,000	90,000
Depreciation	61,045	98,225
Management and general	176,488	145,003
Total Expenses	<u>5,063,903</u>	<u>3,354,475</u>
INCREASE IN UNRESTRICTED NET ASSETS	345,708	140,726
NET ASSETS, BEGINNING OF YEAR	<u>552,120</u>	<u>411,394</u>
NET ASSETS, END OF YEAR	<u>\$ 897,828</u>	<u>\$ 552,120</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 345,708	\$ 140,726
Adjustments to reconcile change in net assets to net cash provided by operations		
Donated assets	-	(60,000)
Loss on disposal of assets	-	98,019
Depreciation	61,045	98,225
Change in operating assets and liabilities		
Increase in other assets	(13,523)	(28,439)
(Increase)/decrease in receivable	(241,888)	71,179
Increase in accounts payable	164,706	102,917
Increase in unearned revenue	2,670	-
Net Cash Provided by Operating Activities	<u>318,718</u>	<u>422,627</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(146,608)</u>	<u>(106,822)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Vehicle loan payments	(13,264)	32,024
Revolving loan payment	<u>(83,333)</u>	<u>(83,323)</u>
Net Cash Used by Financing Activities	<u>(96,597)</u>	<u>(51,299)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	75,513	264,506
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>530,059</u>	<u>265,553</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 605,572</u>	<u>\$ 530,059</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ 1,576</u>	<u>\$ 2,240</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Samueli Academy, formerly known as The Academy Charter School, (the Academy) is a non-profit public benefit corporation and was approved for a charter by the Orange County Department of Education on February 15, 2012, for a period of five years ending in 2017.

Charter school number authorized by the State: 1419

The Academy located at 1901-1919 North Fairview Street, Santa Ana, California, opened on August 29, 2013, and currently serves 375 students in grades nine through eleven. The mission of the Academy is to provide a transformational learning environment to community, underserved and foster teens that offers consistency, stability, support, and a community in which to belong, thrive, and grow into successful, independent adults.

Other Related Entities

Orangewood Foundation (the Foundation) is a non-profit organization that was incorporated in the State of California on November 20, 1980, for the purpose of ending the cycle of child abuse by providing innovative programs.

Orangewood Real Property LLC owns land and buildings leased to the Academy. Orangewood Residential LLC is established to provide onsite housing to foster students at a further date.

Joint Powers Agency and Risk Management Pools - The Academy is associated with the El Dorado Special Education Local Plan Area a Joint Powers Authority (JPA). The JPA does not meet the criteria for inclusion as a component unit of the Academy. Additional information is presented in Note 17 of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Academy are described below to enhance the financial statements.

Financial Statement Presentation

The Academy is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Academy had \$37,668 and \$0 in temporarily restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Academy is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Academy uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions." During 2015-2016, the Academy received \$37,668 in donor-restricted contributions.

Income Taxes

The Academy is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Academy is not aware of any such actions at this time.

The Academy 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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Academy considers all cash on hand and in bank and cash balances with the County treasury to be cash equivalents.

Conditional Promises

Conditional promises to give, which depend on the occurrence of specified future and uncertain events, are not recorded until the conditions are met.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Investments

Investments held at June 30, 2016 and 2015, respectively, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Academy has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

Property and equipment are stated at cost. Donated assets are recorded at their fair market value when received. The cost of purchased assets or fair market value of donated assets is being depreciated using the straight-line method over the estimated useful lives of the related assets, which are five years for furniture, fixtures, and equipment and thirty years for buildings and improvements. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. The Academy capitalizes all expenditures for and donations of property and equipment with a fair value in excess of \$1,000. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of activities. Depreciation expense for the years ended June 30, 2016 and 2015, was \$61,045 and \$98,225, respectively.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the Academy prior to the incurrence of qualifying expenses. In subsequent periods, when both revenue recognition criteria are met, or when the Academy has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met are recorded as deferred revenue.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Academy'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. At June 30, 2016, the Academy has received donated legal services of \$70,650 and a donation of school equipment and services valued at \$90,780, which have been reflected in the financial statements. At June 30, 2015, the Academy received donated legal services of \$62,728, and a donation of Toshiba laptops valued at \$60,000 and donations in the amount of \$8,100, which have been reflected in the financial statements.

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.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016 and 2015, respectively, the Academy has no designated balance.

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in bank	<u>\$ 189,807</u>	<u>\$ 242,820</u>	<u>\$ 234,526</u>	<u>\$ 260,415</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Academy maintains its cash in bank deposit accounts that at times may exceed insured limits. The Academy has not experienced any losses in such accounts. At June 30, 2016 and 2015, respectively, the Academy did not have a balance in excess of insured limits.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - CASH EQUIVALENTS

Summary of Cash Equivalents

Cash equivalents as of June 30, 2016 and 2015, are classified in the accompanying financial statements as follows:

	June 30, 2016		June 30, 2015	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Treasury Investment Pool	\$ 415,765	\$ 416,763	\$ 295,533	\$ 295,710

Deposits with county treasurer are an external investment pool sponsored by the County of Orange. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Academy manages its exposure to interest rate risk by investing in the County Pool.

NOTE 5 - FAIR MARKET VALUE MEASUREMENTS

The Academy determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. The Academy did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 416,763	339

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. The Academy did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 295,710	370

NOTE 6 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Local Control Funding Formula	\$ 64,966	\$ -
Federal receivable	24,575	23,090
State receivable	195,161	146,466
Lottery	45,620	22,985
Other local and contribution's	122,869	18,762
Total Receivables	\$ 453,191	\$ 211,303

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - PREPAID EXPENSES

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepaid rent, insurance, and miscellaneous vendors	<u>\$ 79,881</u>	<u>\$ 66,358</u>

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	<u>Balance</u>		<u>Balance</u>	
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>
Equipment	\$ 172,494	\$ 146,608	\$ -	\$ 319,102
Vehicles	61,747	-	-	61,747
Less: accumulated depreciation	68,707	61,045	-	129,752
Total Fixed Assets	<u>\$ 165,534</u>	<u>\$ 85,563</u>	<u>\$ -</u>	<u>\$ 251,097</u>

During the year ended June 30, 2016 and 2015, depreciation expense was \$61,045 and \$98,225, respectively.

NOTE 9 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Payroll and benefits	\$ 63,118	\$ 21,712
Vendor payables	307,346	174,535
Inter-fund payable to the Foundation	2,675	-
Inter-fund payable to the Orangewood Real Property LLC	-	12,186
Total Accounts Payable	<u>\$ 373,139</u>	<u>\$ 208,433</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - DEFERRED REVENUE

Deferred revenue at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Other local	<u>\$ 16,670</u>	<u>\$ 14,000</u>

NOTE 11 - LONG-TERM OBLIGATIONS

The Academy applied for, and was accepted, into the CDE Charter School Revolving Loan Program in 2013-2014. The Academy received a loan in the amount of \$250,000. The loan bears an interest rate of 0.24 percent with a maturity date in 2017. The repayments will be withheld from the Academy's monthly apportionment payments. At June 30, 2016, the balance was \$83,333.

Future payments are as follows:

Repayment Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 83,333</u>	<u>\$ 153</u>	<u>\$ 83,486</u>

The Academy applied for, and received, a loan of \$40,515 from Wells Fargo Bank in 2013-2014 to purchase two vans to transport students for various student activities. The loan bears an interest rate of 4.96 percent with a maturity date in 2018. At June 30, 2016, the balance was \$18,771.

Future payments are as follows:

Repayment Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 13,946	\$ 616	\$ 14,562
2018	4,825	50	4,875
Total	<u>\$ 18,771</u>	<u>\$ 666</u>	<u>\$ 19,437</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - OPERATING LEASE AGREEMENTS

The Academy entered into a Facilities Use Agreement with Orangewood Real Property LLC for the sole purpose of operating the Academy's educational programs and related activities. The term of this agreement is through June 30, 2017. The Pro-Rata Share of Facilities Cost for 2015-2016 was \$370,880 and shall be paid on the first of every month. For the remaining fiscal years, the Pro-Rata Share increases based upon the increased use of space. In addition to this facility lease agreement, the Academy has a lease for a postage machine through March 31, 2017, and a copier through August 31, 2019.

Payments for the remaining fiscal years will be as follows:

Fiscal Year Ending June 30,	Postage Machine Lease	Copier Lease Payment	Facility Lease Payment	Total
2017	\$ 990	\$ 4,488	\$ 447,376	\$ 452,854
2018	-	4,488	-	4,488
2019	-	5,236	-	5,236
Total	\$ 990	\$ 14,212	\$ 447,376	\$ 462,578

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic and classified employees are members of the California State Teachers' Retirement System (CalSTRS) or are covered by a 403(b) Tax Deferred Annuity Plan (TDA).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Academy chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Academy has no plans to withdraw from this multi-employer plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Academy contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Academy did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Academy contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Academy and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the Academy's total contributions were \$188,285. The Academy's total contributions for the year ended June 30, 2015, were \$25,727.

403(b) Tax Deferred Annuity Plan

For staff, the Academy participates in the 403(b) plan (the Plan) established by the Orangewood Children's Foundation. The Plan provides a discretionary employer match of up to 75 percent of employee contributions to a maximum of \$1,500 each calendar year. Vesting in the employer match is over five years at 20 percent per year. Employees become eligible as of the first of the month following the date of hire. The Academy made \$8,202 and \$3,966 of matching contributions to the Plan during the year ended June 30, 2016 and 2015, respectively.

NOTE 14 - CONTINGENCIES

The 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 disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Litigation

The Academy is not currently a party to any legal proceedings.

NOTE 15 - RELATED PARTY TRANSACTIONS

Various board members make contributions to the Academy through donations, fundraising events, and volunteer time. General contributions recorded from board members during the years ended June 30, 2016 and 2015, totaled approximately \$145,150 and \$44,250, respectively, which are recorded in general contributions in the accompanying Statement of Activities.

The Academy has a service agreement with the Foundation as described in Note 16. As of June 30, 2016 and 2015, \$334,067 and \$277,745, respectively, was paid under this agreement. The Academy leases its facilities from Orangewood Real Property, LLC. Under the terms of this lease, \$370,880 in rental expenses were incurred.

NOTE 16 - SERVICES AGREEMENT

The services agreement between the Foundation and the Academy sets out the terms for employees of the Foundation to provide various administrative, human resources, finance, information technology, facilities, marketing and fundraising services to the Academy. As these services are provided throughout the year, the Academy will reimburse the Foundation for these services at the Foundation's cost. Reimbursements to the Foundation for services were \$334,067 and \$180,000 for the years ended June 30, 2016 and 2015, respectively.

NOTE 17 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Academy is a participant in the El Dorado Special Education Local Plan Area a joint powers authority (JPA) for special education funding. The relationship between the Academy and the JPA is such that the JPA is not considered a component unit of the Academy for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units and the JPA's financial statements are not presented in these financial statements; however, transactions between JPA and the Academy are included in these statements. Audited financial statements for JPA were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2016 and 2015, the Academy made payments of \$21,902 and \$5,476, respectively, to El Dorado SELPA for services received. At June 30, 2016, the Academy had no recorded accounts receivable or accounts payable to the JPA.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 18 - SUBSEQUENT EVENTS

The Academy'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 _____, 2016, which is the date the financial statements were available to be issued. Management has determined there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Samueli Academy (Charter School No. 1419) was granted on February 15, 2012, by the Orange County Department of Education and opened on August 29, 2013. The Academy operates one school for students in grades nine through eleven.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM</u>
Sandi Jackson	Chair	September 2017
Susan Samueli	Vice Chair	September 2017
William L. Healey	Treasurer	September 2015
Marian Bergeson	Secretary	September 2016
Elim Kay	Member	June 2016
Gerardo Mouet	Member	April 2017
Chris Scheithauer	Member	September 2018
Deborah Vandell	Member	April 2018
Nicole Washington	Member	November 2016

ADMINISTRATION

Chris Simonsen	Chief Executive Officer
John R. Luker	Chief Financial Officer
Anthony Saba	Head of School

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA Grades nine through eleven	<u>365.36</u>	<u>364.61</u>
Classroom based ADA Grades nine through eleven	<u>365.36</u>	<u>364.61</u>

The Academy does not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grade 9	64,800	68,179	186	N/A	Complied
Grade 10	64,800	68,179	186	N/A	Complied
Grade 11	64,800	68,179	186	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Academy. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

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, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S REPORTS

**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***

Governing Board
Samueli Academy
(A California Nonprofit Public Benefit Corporation)
Santa Ana, 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 Samueli Academy (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Preliminary DRAFT
For Discussion Purposes Only

Rancho Cucamonga, California
_____, 2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Samueli Academy
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

Report on State Compliance

We have audited Samueli Academy's (the Academy) (A California Nonprofit Public Benefit Corporation) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Academy's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Academy'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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 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 opinions. Our audit does not provide a legal determination of the Academy's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, the Academy 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, 2016.

Other Matters

DRAFT 09/28/2016

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Academy did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

The Academy does not operate a before or after school program within the After-School Education and Safety Program; therefore, we did not perform any related procedures.

The Academy does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Academy was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Academy does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Academy only offers Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Annual Instruction Minutes Classroom-Based.

Rancho Cucamonga, California
_____, 2016

Preliminary DRAFT
For Discussion Purposes Only

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

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>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.