



Los Angeles County Office of Education

Extraordinary Audit

of the Albert Einstein Academy for Letters, Arts and Sciences (AEALAS)

Charter School

December 11, 2014

Joel D. Montero
Chief Executive Officer





December 11, 2014

Arturo Delgado, Ed.D., Superintendent
Los Angeles County Office of Education
9300 Imperial Highway
Downey, CA 90242

Dear Superintendent Delgado,

In November 2013, the Los Angeles County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a AB 139 extraordinary audit. Specifically, the agreement stated that FCMAT would perform the following:

The Los Angeles County Office of Education has requested that FCMAT assign professionals to conduct an Assembly Bill (AB) 139 extraordinary audit. Pursuant to Education Code Section 1241.5(b)(c), the superintendent of the Los Angeles County Office of Education has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Albert Einstein Academy for Letters, Arts and Sciences (AEALAS) Charter School (7-12). The charter school was originally authorized by the William S. Hart Union High School District. AEALAS, Inc. also operates charter schools and home school/independent study programs under a single governing board and centralized management for financial reporting of the following:

1. Acton-Agua Dulce Unified School District (K-12), Los Angeles County
2. Alpine Union School District (K-12), San Diego County
3. Thousand Oaks Middle and High School (6-12), Ventura County Board of Education
4. Saugus Union School District (K-6), Los Angeles County
5. Westlake, Ohio (7-12) under a charter granted by the Ohio State Department of Education
6. Broward County, Florida (14-15 FY)

In addition to the authority granted under Education Code Sections 1241.5(c) and 47604.3, the county superintendent may conduct an investigation of the charter school based on written complaints by parents or other information that justifies the review. Allegations have been received regarding the charter school commingling funds and assets, potential conflict of interest issues based on Government Code Section 1090, and violations of Education Code Section 49010 and of the

FCMAT

Joel D. Montero, Chief Executive Officer

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California Constitution, Article IX, Section 5, prohibiting charging student fees, charges or deposits for curricular, extracurricular, credit or noncredit activities that are part of the charter school's educational program.

The primary focus of this review is to provide the county office with reasonable assurances, based on the testing performed, that the AEALAS charter school has adequate management and internal controls to report and monitor financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud issues such as fictitious employees or vendors, or misappropriation of assets, including cash, may be detected. Specific review objectives will include evaluation of policies, procedures, internal controls and transactions performed by the charter school.

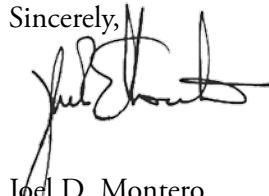
The team will sample test data from the current and one prior fiscal year to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on sample selections; it will not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance regarding the accuracy of the charter school's financial transactions and activity to accomplish the following:

- Prevent internal controls from being overridden by management.
 - Ensure ongoing state and federal compliance.
 - Provide assurance to management that the internal control system is sound.
 - Help identify and correct inefficient processes.
 - Ensure that employees are aware of the proper internal control expectations.
1. The team will evaluate the charter school's internal control structure, policies and procedures to test transactions and reporting processes to determine if the charter school has adequate procedures to safeguard assets, including physical objects, charter school data and intellectual property.
 2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
 3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and determine whether signature authority is delegated only to authorized employees.
 4. Determine whether proper segregation of duties exists.
 - a. Determine if the charter school has protective measures for safeguarding assets, processes and data.
 5. Evaluate policies and procedures:
 - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.

- b. Review document and records retention procedures to determine whether the charter school provides reasonable assurance that asset records are safeguarded, and transactions are correctly recorded.
6. Assess reporting processes:
- a. Evaluate monitoring procedures and verify that controls are operating properly.
 - b. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds. Determine if the organizational charts show lines of authority.
 - c. Evaluate whether clearly established lines of authority and responsibility exist within and between the charter schools for proper review and reporting purposes.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Los Angeles County Office of Education, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joel D. Montero', with a stylized flourish at the end.

Joel D. Montero
Chief Executive Officer

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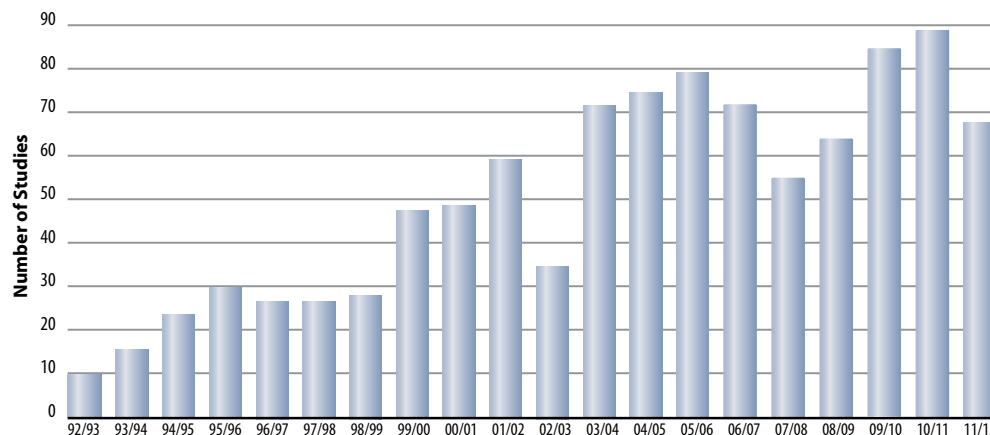
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

In late November 2013, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the Los Angeles County Office of Education for an Assembly Bill (AB) 139 extraordinary audit of the Albert Einstein Academy for Letters, Arts and Sciences (AEALAS) charter school. The November 2013 request was amended in late March 2014, with fieldwork to begin in April 2014.

The county office had received allegations of commingling funds and assets, potential conflict of interest issues, and charging fees for activities that are part of the educational program at AEALAS charter schools. Concerned that these actions may have violated various government and education codes related to fraud and/or misappropriation of assets, the county superintendent initiated an investigation to determine whether sufficient evidence of fraud, misappropriation of funds or other illegal activities may have occurred to report the matter to the local district attorney's office for further investigation. Under the provisions of Education Code Section 1241, FCMAT entered into a contract with the Los Angeles County Office of Education to conduct an AB 139 extraordinary audit.

FCMAT interviewed employees and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal practices occurred that would warrant further investigation by the local district attorney's office.

Study Guidelines

FCMAT provides a variety of services to school districts and county offices of education upon request. Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in that county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. According to the Education Code, the review or audit conducted by the county superintendent will focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and is to be conducted in a timely and efficient manner. This is in accordance with Education Code Section 42638(b), which states:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

Therefore, FCMAT focused on the allegations that:

1. The charter school commingled funds and assets,
2. There were potential conflict of interest issues based on Government Code Section 1090,
3. There were violations of Education Code Section 49010,
4. Student fees and charges or deposits were made for curricular, extracurricular, credit or noncredit activities that were part of the charter school's educational program, which is prohibited by the California Constitution, Article IX, Section 5.

Based on the allegations and information provided, LACOE had reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred. AEALAS charter schools are operated through a single governing board and centralized management structure, and the commingling of funds allegation may cross over to any one of the AEALAS organizations. AEALAS accounting and financial services are performed by five separate AEALAS back office accounting service providers, and LACOE requested FCMAT to provide for the assignment of professionals to conduct an AB 139 Extraordinary Audit and to assess AEALAS reporting processes. The reporting processes to be assessed are:

1. Evaluate monitoring procedures and verify that controls are operating properly.
2. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds. Determine if the organizational charts show lines of authority.
3. Evaluate whether clearly established lines of authority and responsibility exist within and between the charter schools for proper review and reporting purposes.

FCMAT provided for the assignment of professionals to study specific aspects of alleged fraud, misappropriation of funds or other illegal fiscal practices that may have occurred in the AEALAS organization pursuant to Education Code Sections 47604.4 and 1241.5.

Study Team

The study team was composed of the following members:

Deborah Deal, CICA, CFE
FCMAT Fiscal Intervention Specialist
Los Angeles, CA

Michael W. Ammermon, CPA, CFE, DABFA
FCMAT Consultant
Laguna Niguel, CA

Laura Haywood
FCMAT Technical Writer
Bakersfield, CA

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Background

The Albert Einstein Academy for Letters, Arts and Sciences (AEALAS) operates several charter schools, independent study and home school programs. The first AEALAS charter school was the AEALAS Charter School Junior/Senior High School-Santa Clarita Valley, grades 7-8, which was originally approved and authorized by the William S. Hart Union High School District on March 17, 2010.

All AEALAS charter schools, independent study and home school programs are operated by Albert Einstein Academy for Letters, Arts and Sciences, Inc. (AEALAS, Inc.). AEALAS also has an AEALAS Foundation. In a letter to the California Secretary of State, dated December 27, 2011, AEALAS, Inc. stated:

“AEALAS Foundation is being created as a supporting organization of AEALAS, Inc., pursuant to Internal Revenue Code 509(a)(3), to raise money for AEALAS, Inc.’s operations.”

To differentiate between AEALAS charter schools, AEALAS, Inc., and the AEALAS Foundation, this report will refer to the AEALAS Foundation as “the “Foundation.” When this report refers to AEALAS, it is applying the term to all AEALAS entities organization wide, including the Foundation, Central Management Organization (CMO), and charter schools operated by AEALAS, Inc.

AEALAS, Inc. is organized as a California nonprofit public benefit corporation and operates the AEALAS charter schools and programs under a single governing board and centralized management structure. AEALAS, Inc. operates the following charter schools and programs in Ohio, Florida and California:

1. AEALAS-Hart Santa Clarita Valley (**AEALAS-Hart**), grades 7-12, located within the William S. Hart Union High School District, Los Angeles, CA, commencing operations in fiscal year 2010-11.
2. AEALAS-Acton Santa Clarita Valley (**AEALAS-Acton**), grades K-6, located within the Acton Agua Dulce Unified School District, Los Angeles, CA commencing operations in fiscal year 2013-14.
3. AEALAS-Acton Santa Clarita Valley Independent Study (**AEALAS-ActonIS**), grades K-6, located at Acton Agua Dulce Unified School District, Los Angeles, CA, commencing operations in fiscal year 2013-14.
4. AEALAS-Agua Dulce Partnership Academy (**AEALAS-ActonPA**), grades K-5, located at Acton Agua Dulce Unified School District, Los Angeles, CA, commencing operations in fiscal year 2014-15.
5. AEALAS-Alpine Endeavour Academy (**AEALAS-AlpineEA**), grades K-6, located within the Alpine Union School District, San Diego, CA, commencing operations in fiscal year 2013-14.
6. AEALAS-Alpine Endeavour Academy Independent Study (**AEALAS-AlpineEIS**), grades K-6, located in the city of Huntington Beach and operated out of Alpine Union School District, San Diego, CA, projected to open in fiscal year 2014-15.

7. AEALAS-Thousand Oaks Middle and High School (**AEALAS-TO**), grades 6-12, chartered by the Ventura County Board of Education. First and last year of operation in fiscal year 2013-14.
8. AEALAS-Westlake, Ohio (**AEALAS-Ohio**), grades 7-12, chartered in the state of Ohio by the Ohio State Department of Education, commencing operations in fiscal year 2013-14.

AEALAS-Broward County, Florida (**AEALAS-Florida**), grades K-5, chartered by the School District of Broward County located in Broward County, Florida. First year of operation is anticipated to be fiscal year 2014-15; however, it is doubtful that the charter school will open as planned. The financial accounting for all AEALAS operations, charter schools, the Foundation, and the CMO is not accounted for under one central accounting system but through six separate sets of books and administered through five separate back office accounting service providers as follows:

1. The **Foundation** and **CMO** accounting records are currently accounted for in two separate QuickBooks accounting software sets of books by one external bookkeeper doing business as Kaisee's Bookkeeping. The CMO accounting was performed by Charter School Management Company (CSMC) in fiscal year 2012-13 and by Kaisee's bookkeeping in fiscal year 2013-14. The Foundation payroll is processed by Wells Fargo payroll services and the CMO payroll is processed by CSMC.
2. The **AEALAS-TO** charter school accounting was accounted for by the Ventura County Schools Business Services Authority (VCSBSA) and payroll service by CSMC.
3. The **AEALAS-Ohio** charter school accounting was accounted for by CSMC as requested by the Ohio community schools sponsor, the North Central Ohio Educational Service Center Treasurers Office (NCOESC) educational service center. As of November 2013, the bookkeeping was transferred to an Ohio external accountant who is licensed as a treasurer for the state of Ohio who maintains the accounting records using QuickBooks Online accounting software.
4. The **AEALAS-Acton**, **AEALAS-ActonIS**, **AEALAS-AlpineEA**, and **AEALAS-AlpineEIS** charter schools accounting is performed by EdHive, Inc. using QuickBooks Online accounting software.
5. The **AEALAS-Hart** charter school accounting is performed by CSMC using its own proprietary accounting software. CSMC also processes the payroll and prepares the quarterly and annual payroll reporting for the combined CMO and AEALAS operations (Hart, Acton, ActonIS, ActonPA, AlpineEA, AlpineEIS, TO, and Florida).

AEALAS charter schools and programs are in Los Angeles and San Diego counties, and are also located in Ohio and Florida. To clarify the changing and multiple back office accounting and payroll service providers of AEALAS, table one below compiles and consolidates the AEALAS charter schools and programs presented above.

Table I

Albert Einstein Academy for Letters, Arts and Sciences (AEALAS)					
Description	School District	Grades	First Year Operation	Accounting Services	Payroll Services
AEALAS-					
Hart	Hart-Santa Clarita	7-12	2010-2011	CSMC	CSMC
Acton	Acton-Santa Clarita	K-6	2013-2014	EdHive	CSMC
ActonIS	Acton-Santa Clarita	K-6	2013-2014	EdHive	CSMC
ActonPA	Acton-Santa Clarita	K-5	2014-2015	CSMC	CSMC
AlpineEA	Alpine-San Diego	K-6	2013-2014	EdHive	CSMC
AlpineEIS	Alpine-San Diego	K-6	2014-2015	EdHive	CSMC
TO	Thousand Oaks	6-12	2013-2014	VCSBSA	CSMC
Ohio	Westlake, Ohio	7-12	2013-2014	CSMC/NCOESC	CSMC/NCOESC
Florida	Broward County, FL	K-5	2014-2015	CSMC	CSMC ¹
CMO	N/A ¹	N/A ¹	2012-2013	CSMC/Kaisee	CSMC
Foundation	N/A ¹	N/A ¹	2012-2013	Kaisee	Wells Fargo
N/A ¹ = Not part of any school district					
CSMC ¹ = It is questionable at this time if the school will open as planned					

Audit Field Work, Scope, and Procedures

The fraud investigation consisted of gathering adequate information regarding specific allegations, establishing an audit plan, and performing various audit test procedures to determine whether fraud occurred, and if so, evaluate the loss, determine who was involved, and determine how it occurred. During the interviews, FCMAT study team members asked questions pertaining to levels of authority to enter into contracts, governing board oversight, financial management policies and procedures, job duties and responsibilities, the business practices processing of transactions through the various back office service providers, and management's process for preserving documents and the overall internal control structure and line of authority of the AEALAS organization.

The primary focus of this review is to provide the Los Angeles County Office of Education with reasonable assurances based on the testing performed that adequate management controls are in place regarding the charter schools' reporting and monitoring of financial transactions and to indicate whether evidence exists to support a conclusion by the county superintendent that fraud, misappropriation of funds or other illegal activities may have occurred. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance.

FCMAT utilized fraud risk assessment tools and study team judgment to conduct sample testing of financial transactions, other data and contracts to determine if fraud, misappropriation of funds or other illegal activities have occurred. Testing associated with this review is based on sample selection and does not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance as to the accuracy of the AEALAS organization's transactions and financial activity.

FCMAT's preliminary assessment of the AEALAS organization as a whole determined that financial transactions were occurring between the AEALAS charter schools, CMO, and the Foundation. Because financial transactions were identified between the AEALAS entities, the scope of the audit was expanded from the AEALAS Santa Clarita Valley elementary and junior/

senior high schools to include the AEALAS Foundation; CMO; Endeavor San Diego; Thousand Oaks, California; Westlake, Ohio; and Broward County, Florida AEALAS entities.

FCMAT visited the AEALAS's corporate office, CSMC and EdHive back office service provider offices, and contacted by telephone the Ventura County Office of Education and the Westlake, Ohio back office service provider offices. Meeting with AEALAS and its back office service providers allowed FCMAT to conduct interviews, request and discuss specific financial transactions, and observe and obtain information related to general business practices and events that transpired during the current and preceding fiscal year, including any alleged mismanagement, fraud or abuse.

During the meetings and communications with AEALAS representatives and AEALAS back office service providers, FCMAT team members asked questions and examined documentation pertaining to contracts, governing board oversight and minutes, financial management policies and procedures, job duties and responsibilities, fund-raising activities, cash handling, use of debt financing, and reimbursement of expenditures in general. The team followed with several interviews, asking open-ended questions designed to elicit information about other possible irregularities related to the scope of work.

AEALAS management and back office service providers extended their fullest cooperation during the interviews, follow-up meetings, telephone calls, and other communications.

Transaction Sampling Analysis

To accomplish the objectives of this audit, a number of audit test procedures were developed to provide an analysis and understanding of the allegations and potential outcomes. The team was granted cooperative access by AEALAS and AEALAS's back office service providers to the various accounting records of the AEALAS organizations. Contributing to the complexity of the audit were the various accounting systems and formats that contained accounting records of AEALAS back office providers. In addition, AEALAS replaced two back office service providers during the course of the FCMAT audit. These are the various accounting software systems encountered:

- CSMC: Proprietary accounting software that provided exported Excel files
- Kaisee: QuickBooks accounting software desktop stand-alone version
- EdHive: QuickBooks Online accounting software
- NCOESC: QuickBooks Online accounting software
- VCSBSA: Proprietary accounting software that provided exported Excel files

To audit the AEALAS organizations, FCMAT compiled and assembled the transaction samples by organization and back office service provider. The team performed audit sampling tests of AEALAS's CMO, Foundation, Santa Clarita Junior/Senior High School, Santa Clarita Elementary School, Endeavor Academy-San Diego, and AEALAS Westlake, Ohio's general ledger, vendor and customer names and invoices, cash receipts and cash disbursements, donations and loans, and reimbursement transactions.

The transaction sample was developed by reviewing each set of AEALAS financial accounting records covering the 2012-13 and 2013-14 fiscal years. Within each set of books for each individual AEALAS organization there were numerous vendors, customers, and individual general ledger, cash receipt, and cash disbursement transactions. Transactions were analyzed and evaluated for sampling selection based on the team's judgment and technical expertise of charter

school accounting. The final sample selection and size is representative of the AEALAS organizations' business and management practices. Table II summarizes the total of transactions sampled for each AEALAS organization.

Table II

AEALAS Organizations Transaction Sampling			
Description	School District	Deposits	Cash
		Cash Receipts	Disbursements
AEALAS-			
Hart	Hart-Santa Clarita	44	33
Acton	Acton-Santa Clarita	10	38
AlpineEA	Alpine-San Diego	356	8
Ohio	Westlake, Ohio	2	19
CMO		3	53
Foundation		6	48
Totals		421	199

The AEALAS organizations transaction sample documentation was examined to gain understanding of the internal controls and management practices. The transaction sample consisted of and considered:

- Review of the back office service provider accounting records between July 1, 2012 and June 30, 2014.
- Review of proper authorization and available supporting documentation.
- Review of the charter school's internal control policies, process and procedures.
- Review of the charter school's fiscal policies and procedures handbook.
- Analysis of vendor and employee payments including employee reimbursements.
- Analysis of debt obligations, short- and long-term agreements and various forms of debt instruments.
- Review of the charter schools' petition documents.
- Review of federal Forms 990.
- Review of the governing board minutes.
- Analysis of the charter school's compliance with laws and regulations relating to conflict of interest and the Political Reform Act and review of Forms 700.

FCMAT's findings are the result of the above audit procedures.

The AEALAS organizations' Combined Statement of Financial Position and Statement of Activities as of June 30, 2013 are provided on the next two pages to show the liabilities and net assets of the organizations in the form of a consolidated financial statement.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENT OF FINANCIAL POSITION

As of June 30, 2013

ASSETS

	AEA Santa Clarita HS	CMO	Elimination	Total
Current assets:				
Cash in banks (Notes 1, 2, and 13)	\$ 2,735	\$ (71,125)		(68,390)
Accounts receivable (Note 3)	217,539	-	-	217,539
Other receivables	4,000	457,481	-	461,481
Intercompany receivables (Note 4)	354,260	-	(354,260)	-
Prepaid expenses and other assets	3,503	88,200	-	91,703
Total current assets	582,037	474,556	(354,260)	702,333
Capital assets (Notes 1 and 6):				
Land, property, and equipment, net	5,371,960	-	-	5,371,960
Bond issuance cost, net	406,319	-	-	406,319
Total capital assets	5,778,279	-	-	5,778,279
Other assets:				
Cash held by trustee (Note 2)	568,997	-	-	568,997
Cash placed as collateral (Note 2)	100,000	-	-	100,000
Total other assets	668,997	-	-	668,997
Total assets	\$ 7,029,313	\$ 474,556	\$ (354,260)	\$ 7,149,609

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable (Note 7)	\$ 45,129	\$ 25,184	\$ -	\$ 70,313
Accrued payroll and related liabilities	9,242	-	-	9,242
Accrued interest	100,494	201	-	100,695
Deferred revenue	583	-	-	583
Intercompany payables (Note 4)	-	354,260	(354,260)	-
Loans and notes payable (Note 8)	262,500	99,990	-	362,490
Total current liabilities	417,948	479,635	(354,260)	543,323
Non-current liabilities:				
Bonds payable	6,395,000	-	-	6,395,000
Loans and notes payable (Note 8)	62,500	-	-	62,500
Total non-current liabilities	6,457,500	-	-	6,457,500
Total liabilities	\$ 6,875,448	\$ 479,635	\$ (354,260)	\$ 7,000,823
Net assets:				
Unrestricted:				
Designated for bond requirements	\$ 568,997	\$ -	\$ -	\$ 568,997
Designated as collateral for the loan	-	100,000	-	100,000
Undesignated	(415,132)	(105,079)	-	(520,211)
Total net assets	\$ 153,865	\$ (5,079)	\$ -	\$ 148,786
Total liabilities and net assets	\$ 7,029,313	\$ 474,556	\$ (354,260)	\$ 7,149,609

See accompanying independent auditors' report.

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

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2013

	AEA Santa Clarita HS	CMO	Total
Revenues, gains, and other support			
Revenue limit sources	\$ 1,904,174	\$ -	\$ 1,904,174
State support	240,679	-	240,679
Interest income	1,700	-	1,700
Fundraising	58,641	86	58,727
Other local revenues	323,967	4,561	328,528
Total revenues, gains, and other support	2,529,161	4,647	2,533,808
Expenses:			
Certificated salaries	1,120,923	-	1,120,923
Classified salaries	56,178	-	56,178
Employee benefits	232,715	-	232,715
Books and supplies	166,413	196	166,609
Interest expense	285,127	3,698	288,825
Services and other operating expenses	514,463	5,832	520,295
Depreciation	94,500	-	94,500
Total expenses	2,470,319	9,726	2,480,045
Increase (decrease) in net assets	58,842	(5,079)	53,763
Net assets, beginning of year	95,023	-	95,023
Net assets, end of year	\$ 153,865	\$ (5,079)	\$ 148,786

See accompanying independent auditors' report.

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

Fraud, Internal Control Elements, Conflict of Interest, Government Code 1090 Overview

Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts.

A material weakness is a deficiency in the internal control process whereby errors or fraud may occur. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them. A material weakness also can be a violation of law or regulations.

Although all employees have some degree of responsibility for internal controls, the governing board, executive director and senior management are ultimately responsible.

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation includes cash skimming, falsifying expense reports and/or forging company checks. Corruption involves an employee(s) using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization. Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection comes from tips, which help prevent occupational fraud three times as often as any other detection method. According to the 2014 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, corruption schemes accounted for 37% of the 1,483 cases studied, with a median loss of \$200,000. There is a direct correlation between the perpetrator's position and authority in an organization and the losses incurred. Losses from fraud by owners and executives are four times higher than those from fraud by managers and seven times higher than losses incurred as a result of fraud by employees.

Internal Control Elements

The term "internal control" is defined by the accounting industry as it applies to organizations, including school agencies. An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal controls help an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations. Internal controls provide the means to direct, monitor, and measure an organization's assets and resources and play an important role in protecting it from fraud, abuse or misappropriation.

All educational agencies should establish internal control procedures to accomplish the following:

1. Prevent management from overriding internal controls.
2. Ensure ongoing state and federal compliance.
3. Assure the governing board that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. Ensure that employees are aware of the expectation that proper internal controls will be utilized.

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control processes provide reasonable assurance that a district's operations are effective and efficient, that the financial information produced is reliable, and that the organization operates in compliance with all applicable laws and regulations.

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five interrelated elements of an effective internal control structure and their definitions are included in the table below.

Internal Control Element	Definition
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Fraud Risk Assessment	Identification and assessment of the organization's objectives to develop a strategy to react in a timely manner.
Control Activities	The development of policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Establishes effective fraud communication. Ensures that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring	Ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

A strong system of internal controls that includes all five of the internal control elements can provide reasonable but not absolute assurance that the organization will achieve its goals and objectives.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. In planning and performing independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances so they may express their opinion on the financial statements, but not to express an opinion on the effectiveness of an organization's internal control. The auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a material weakness or

significant deficiency, which means that material weaknesses or significant deficiencies may exist that were not discovered during the audit.

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, detect and/or correct, misstatements in a timely manner. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner. A *significant deficiency* is a deficiency, or 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.

The following is a partial list of deficiencies and omissions that can cause internal control failures:

- Failure to adequately segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g., cash, fixed assets, personnel records).
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions.
- Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.
- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization is achieving its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties, limiting access to cash, management review and approval, and reconciliations. Other types of internal controls are typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

Political Reform Act – Disclosure, Conflicts of Interest and Enforcement

The Political Reform Act (PRA), Government Code Sections 81000 - 91015, was enacted by Proposition 9 in June 1974. The stated intent of the act was to establish a process for most state and local officials as well as certain designated employees to publicly disclose their personal income and assets as follows:

[a]ssets and income of public officials which may be materially affected by their official actions...[are] disclosed and in appropriate circumstances the officials...[are] disqualified from acting in order that conflicts of interest may be avoided.

The PRA provisions are enforced by the Fair Political Practices Commission (FPPC) and require every state and local governmental agency to adopt a conflict-of-interest code. The commission is the state agency responsible for interpreting the provisions of the law and issuing California

Form 700 – Statement of Economic Interests. Because charter school governing board members are considered “public officials” and governing boards are considered “legislative bodies,” board members and certain designated individuals must file Form 700 annually, or upon taking office/position. Additionally, a consultant to the organization “who makes, participates in making, or acts in a staff capacity for making governmental decisions” may be required to complete Form 700.

PRA provides an eight-step process to determine whether a conflict of interest exists as follows:

1. Is the individual a public official?
2. Is the public official making, participating in making, or influencing a governmental decision?
3. Does the public official have one of the six qualifying types of economic interests? (An economic interest will be discussed more fully in the next section of this report.)
4. Is the economic interest directly or indirectly involved in the governmental decision?
5. Will the governmental decision have a material financial effect on the public official’s economic interests?
6. Is it reasonably foreseeable that the economic interest will be materially affected?
7. Is the potential effect of the governmental decision on the public official’s economic interests distinguishable from its effect on the general public?
8. Despite a disqualifying conflict of interest, is the public official’s participation legally required?

Findings

Internal Controls

LACOE requested that AEALAS's reporting processes be assessed. Reporting processes are a component of internal controls.

Specific reporting processes identified by LACOE for review include:

1. Evaluate monitoring procedures and verify that controls are operating properly.
2. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds. Determine if the organizational charts show lines of authority.
3. Evaluate whether clearly established lines of authority and responsibility exist within and between the charter schools for proper review and reporting purposes.

Based on the findings of the FCMAT extraordinary audit, the team concludes that *significant deficiencies* exist with the internal control structure, particularly with monitoring procedures, internal controls over operations and management's ability to override internal controls.

The June 30, 2012 AEALAS, Inc. audit identified material weaknesses but no significant deficiencies in internal controls. As of June 30, 2013, the auditor found no material weaknesses and no significant deficiencies in internal control.

However, included in the June 30, 2012 and 2013 audit reports is a schedule to reconcile consolidated AEALAS-Hart unaudited financial statements with the audited financial statements that shows an increasing trend in audit adjustments to the financial statements. This means that although the audit report did not denote material weaknesses in internal controls, sufficient differences were found in the financial information that AEALAS provides so that the auditor corrected AEALAS' financial statements to make them materially correct. When the internal control system is operating efficiently, the expectation is that there will be fewer audit adjustments to the financial statements and no reportable material weaknesses. A high number of audit adjustments and restatements to the unaudited financial statements by the independent auditor indicates a lack of strong internal controls and/or knowledgeable staff to provide proper accounting of transactions, causing the auditor to make corrections to the financial statements. Without these corrections the financial statements may otherwise have been considered materially misstated, and the misstatements may not have been prevented, detected and corrected in a timely manner by the management or employees of AEALAS, Inc.

The June 30, 2012 audit report presented net restatements of (\$5,000) and net adjustments of \$35,208, yet the June 30, 2013 audit report presented net restatements of (\$331,330) and net adjustments of \$363,930. Table III below provides the details of the AEALAS financial statements corrections.

Table III

AEALAS, Inc. Audit Restatements and Adjustments		
Description	June 30,	
	2012	2013
Unaudited Net Assets at June 30	\$ 64,816	\$ 121,265
Restatements:		
Cash in bank and treasury	40,460	2
Accounts receivable	-	(755,100)
Other receivables	-	4,000
Prepaid expenditures, other current assets	-	(321,443)
Investments in capital assets	-	(9,889)
Accounts payable	57,410	109,736
Accrued payroll	(3,917)	(9,242)
Accrued interest	-	(100,494)
Other liabilities	(98,953)	-
Loans payable	-	751,100
Net Restatements	(5,000)	(331,330)
Audit adjustments:		
Investment in capital assets	138,993	9,670
Accounts payable	(103,785)	-
Intercompany receivables	-	354,260
Net Audit Adjustments	35,208	363,930
Audited Net Assets at June 30	\$ 95,024	\$ 153,865

FCMAT's findings conclude that AEALAS's internal controls continue to exhibit significant deficiencies based on reoccurring internal control findings and questioned costs reported in the 2011-12 and 2012-13 independent auditor's reports of the consolidated AEALAS, Inc. financial statements. The following represents a summary of auditor findings (See Appendix A for copies of the notes from the 2011-12 and 2012-13 independent auditor's reports):

1. The 2011-12 independent auditor's report findings and questioned costs identified two internal control findings:
 - Finding 2011-1 identified that AEALAS, Inc. lacks formal purchasing policies because invoices that were tested did not have an audit trail of who initiates, authorizes, and approves the purchases, and a check was issued to a staff member rather than the actual vendor.
 - Finding 2011-2 identified the lack of a formal cash receipt process or policy because there was no formal documentation of cash and checks collected and deposited.
2. The 2012-13 independent auditor's report findings and questioned costs identified six findings:

- Finding 2013-1 identified that AEALAS, Inc. had established a CMO without setting aside funding for the CMO's operations and failed to budget for its activities. Referenced in finding 2013-1 are audit notes one, four, and 14. Audit note four documents that an intercompany payable of \$354,260 owed by the CMO to AEALAS-Hart was corrected by the auditor as an audit adjustment at page 21 in the 2012-13 audit report's Schedule to Reconcile the Unaudited Actuals Report with Audited Financial Statements, as shown above in Table III.
- Finding 2013-1 and audit note 14 describe that AEALAS, Inc. also loaned \$457,481 to the Foundation for the purpose of starting new school locations. Because of the funds loaned to the CMO and Foundation, the AEALAS-Hart charter school had to sell a portion of its receivables and place some of its cash as collateral to fund the CMO activities.
- Finding 2013-1 response of AEALAS, Inc. states that AEALAS, Inc. has hired a new experienced chief financial officer (CFO) who will be addressing the budget and control issues. FCMAT believes the new CFO should provide stability and improve AEALAS's internal controls and management monitoring, accountability, and communication and the overall control environment of all AEALAS organizations.
- Finding 2013-2 identified that the CMO does not follow the same cash disbursement controls as AEALAS-Hart.
- Finding 2013-3 identified that AEALAS, Inc. authorized a payment on one of its loans resulting in an overpayment of \$4,000.
- Finding 2013-4 identified that loan documents were unsigned and minutes of board meetings were missing. In addition, the CMO did not have any budgets readily available for the other charter schools except for AEALAS-Hart.
- Finding 2013-5 identified that the AEALAS, Inc. founder and former executive director were continuing to sign checks and loan documents on behalf of AEALAS, Inc. without express authorization of the governing board. Auditors were unable to obtain board meeting minutes or other documents indicating any authority to perform those functions.
- Finding 2013-6 identified that \$142,500 of loans payable to related parties were delinquent and not in compliance with Bond Series 2012A and Bond Taxable Series 2012B loan agreement covenants in the following sections:
 - 5.07, failure to file annual report for the fiscal year ending June 30, 2013 on time.
 - 5.09, to maintain an arm's-length relationship with its affiliates such as the Foundation; not to pledge its assets for the benefit of any other entity or make any loans or advances to any other entity such as was done with the Foundation; to hold itself out as a separate entity when the Foundation processed a loan with Mission Valley Bank while the loan was issued to AEALAS, Inc. using AEALAS, Inc.'s tax identification number; to correct any known misunderstanding regarding separate identity, which AEALAS, Inc. did not correct and left the loan in the name of AEALAS, Inc.; to maintain adequate capital whereby the CMO did not have a budget or operating capital for its activities.

- 5.12, AEALAS, Inc. failed to have the required 30 days cash on hand.
- 5.13, AEALAS, Inc. failed to maintain its short-term borrowing to less than 10% of its gross revenue, which at June 30, 2013 was 14%.

During FCMAT's audit, transaction sampling resulted in a continuance of certain internal control *significant deficiencies*. For example, board meeting minutes were requested for all AEALAS organizations pertaining to loans, agreements, contracts, and CMO fee charges, yet no board meeting minutes were made available to the FCMAT team. Based on the independent auditor's findings for 2012-13, only select board meeting minutes were provided to the auditors.

FCMAT requested copies of all board minutes for the 2012-13 and 2013-14 fiscal years; however, AEALAS was unable to provide the board minutes. The team also requested board minutes associated with the transaction sample to provide evidence that certain transactions such as loans and contracts were board approved. Board minutes specific to the FCMAT's transaction sample requests were also unavailable.

Transaction Sampling

The Foundation, CMO, AEALAS-AlpineEA, AEALAS-Acton, and AEALAS-Hart

FCMAT found that consistent and complete audit trail documentation continues to be unavailable. In several instances, the only documentation of the transaction to support the item sampled was a photocopy of a commercial warrant. The team did observe that the most current transactions selected as part of the sample testing were supported by more complete documentation including vendor invoices, contracts and photocopies of the commercial warrant.

Many loan agreements are unsigned by one or both parties to the loan. In addition, minutes of the governing board approval authorizing the loan were not available.

A deficiency exists with formal written cash receipt processes or policies. For several cash receipt transactions, including donations, AEALAS failed to formally document cash and checks collected and deposited, and failed to present or have available donation acceptance letter copies acknowledging acceptance of any donations. In many instances, only a deposit slip was available and was missing photocopies of checks that support the total amount deposited. Conversely, stacks of check copies and remittent advice copies were available but did not indicate the date of deposit.

The Foundation accounting records identified six transactions totaling \$22,258.12 between March 2014 and May 2014 noted as cash and located in the general ledger account titled "Ask My Accountant – Cash Transactions." AEALAS was unable to provide any documentation that would explain these cash transactions.

The Foundation accounting records identified a vendor as "Pizza Place" with four transactions in October 2013 totaling \$13,847.65; however, the supporting documents indicated that the transactions were for legal services, consulting and reimbursements.

- \$10,000 for legal services regarding the Ventura project - AEALAS-TO.
- \$2,000 to Mark Blazer for reimbursement; however, no documentation was available to provide the details of the reimbursement.

- \$1,000 to Steven Kassel for biofeedback consulting.
- \$847.65 to Mark Blazer for reimbursement for Cleveland, Ohio and Miami, Florida trip expenses.

Organizational Lines of Authority

The newly appointed CFO was able to provide the FCMAT study team with updated organization charts containing lines of authority. The charts provide clear and detailed lines of authority and reporting responsibility for the back office service providers, AEALAS, Inc., CMO, chief academic advisor, chief executive officer, chief financial officer, Foundation, and board of directors. The team reviewed eight separate organization charts that establish the lines of authority and responsibility within and between each individual charter school. The organization charts are attached as Appendix B.

Policies and Procedures Manual

The only accounting policies and procedures manual that AEALAS presented for review and that was available was the AEALAS-Hart Fiscal and Operating Policies Manual that now serves as the AEALAS fiscal and operating policies manual.

Because AEALAS operates under one federal identification number, a commonly controlled governing board, issues consolidated financial statements, and has a CMO and Foundation, a single accounting policies and procedures manual should be applicable to all AEALAS charter school and centralized operations.

The AEALAS-Hart Fiscal and Operating Policies Manual is limited to 23 pages and contains sections for record keeping, cash disbursements, cash receipts, and expense reimbursements. Sections 100-Internal Control, 409-Debt, 1000-General Accounting Procedures, 1100-Cash Management Procedures, and 1400-Expense Reimbursement require internal accounting controls approval and documentation. Based on FCMAT's review of the manual, the manual is insufficient to meet the needs of the AEALAS organization and is not consistently followed. Many sections of the manual are missing including: Inter-organizational loans, funds transfers and fee documentation, federal and state form and compliance procedures.

In addition to the sections described above, the AEALAS fiscal and operating policies manual is missing key components of internal controls as summarized below:

- How receipts and disbursements must be fully and accurately described in the books and records.
- Specific procedures for contract and loan agreements approved by the governing board that should be in writing and specify all applicable terms.
- Procedures for adequate documentation of all transactions that show the justification and authorization for the transaction.
- Procedures for depositing and identifying cash receipts to bank deposits.
- Proper bank reconciliation procedures.
- Procedures for management authorization for payment of invoices and/or reimbursements including individual manager approval limits.

- Procedures for matching of disbursement against accounts payable and open invoices including support documentation to complete and file paid invoices that includes vendor invoice, purchase order and purchase requisition.
- Board policy and documentation procedures for reimbursable employee expenses.

Based on FCMAT's recommendation during the audit process, according to AEALAS's CFO and president, they have consolidated the five back office services into one provider to streamline the overall accounting system, improve proper financial reporting, and apply consistent accounting policies and procedures.

Effective July 1, 2014, all charter school and CMO accounting has been consolidated to one central back office service provider, CSMC. The Foundation remains the only AEALAS entity with separate bookkeeping.

Consolidating AEALAS charter schools and CMO accounting and back office service to CSMC is anticipated to result in consistently applied accounting transactions and documentation. The new CFO is also researching accounting policies and procedure manuals to provide a more comprehensive and detailed manual to meet the needs of all of the AEALAS entities.

Commingling of Funds and Financial Assistance

AEALAS, Inc. operates its charter schools and the CMO as one entity under one federal identification number. The AEALAS, Inc. June 30, 2013 audit report, Note 1, section A, fourth and fifth paragraphs states:

"On January 4, 2012, AEALAS created a foundation, AEALAS Foundation (the Foundation), to support AEALAS' operations ... The Foundation's major activity so far has been to facilitate AEALAS' expansion.

"For the fiscal year ending June 30, 2013, AEALAS still had only one charter school, AEA Santa Clarita, in operation; however, AEALAS has created a segment within the entity, referred as Charter Management Organization (CMO) that has been working with the Foundation to process petitions for additional charter schools. The main purpose of the CMO is to oversee the creation and operation of all charter schools opened under AEALAS."

The AEALAS, Inc. June 30, 2013 audit report consolidates the financial reporting of both AEALAS, Inc. and the CMO. The consolidation process eliminates intercompany receivables and payables of AEALAS, Inc. and the CMO and treats both entities as one for audited financial reporting purposes.

The consolidated audit report of AEALAS, Inc. has documented that AEALAS, Inc.'s CMO is a segment within AEALAS, Inc. and its main purpose is the oversight, creation and operation of all charter schools opened under AEALAS, Inc. It is further stated that the Foundation's purpose is to facilitate AEALAS's expansion of charter schools. Also noted in the June 30, 2013 audit report is evidence of loan activity from the Foundation to AEALAS, Inc. totaling \$457,481, demonstrating an auditable trail and amounts due.

The revised November 2012 Ventura County Office of Education charter petition (AEALAS-TO), Introduction and Table I, page 2, final paragraph states:

“NOTE: Einstein Academy-Ventura County will maintain a separate bank account from other charter schools operated by AEALAS, Inc. and will not commingle funds. There are no financial arrangements for any charter school operated by AEALAS, Inc. to provide financial assistance to any other entity.” (Emphasis added)

The March 2013 Acton-Agua Dulce Unified School District charter petition (AEALAS-Acton), Section IV Governance Structure, pages 80-81, beginning with the final paragraph on page 80 states:

“AEALAS will not commingle funds between schools, and the bylaws shall not be construed to permit commingling of funds between schools. The general powers provided to the AEALAS Board to make disbursements from funds and properties of AEALAS is a general power that does not do away with solid financial accounting principles requiring that each AEALAS school keep its own books and budgets. The financial plan accompanying this petition demonstrates the AEA-Elementary School plans to operate independently from other AEA schools. In the event that the schools share common resources, expenses and personnel, their budgets would be revised to reflect expenditures for each school’s pro rata share of these common resources, expenses and personnel. Each school’s share in the common resource, expense and/or personnel will be reflected in an AEALAS board-approved writing and available for inspection upon request. (Emphasis added)

The February 2013 Saugus Union School District charter petition, which was denied by the Saugus Union School District, Introduction and Table I, page 2, final paragraph states:

“NOTE: Einstein Academy-Saugus will maintain a separate bank account from other charter schools operated by AEALAS, Inc. and will not commingle funds. There are no financial arrangements for any charter school operated by AEALAS, Inc. to provide financial assistance to any other entity.” (Emphasis added)

The revised March 2010 William S. Hart Union High School District charter petition (AEALAS-Hart), makes no reference whether AEALAS-Hart will or will not commingle funds or provide financial assistance to any other entities.

Because AEALAS entities operate as one family of organizations under common control and whose practice it is to share resources and loan funds with each other, this represents the current practice for the entire AEALAS organization. The most recent charter petitions state that the organization will not commingle funds or provide financial assistance to other entities.

The AEALAS CMO and Foundation are established for the sole purpose to support AEALAS charter schools, and this is fully disclosed in the AEALAS June 30, 2013 audit report. A single governing board of AEALAS, Inc. oversees all AEALAS charter schools, and the audit reports of AEALAS disclose notes to the financial statements and the audit findings demonstrate that inter-company transactions are occurring and accounted for in the record. AEALAS signs contracts for the charter schools, the Foundation borrows funds from AEALAS, and individual supporters, including the AEALAS founder and board members, lend money to AEALAS.

Inter-organization borrowing within an organization of related entities operating under one federal identification number is not considered commingling of funds. Commingling occurs when funds are spent and shared between *unrelated* entities and the funds *lose their identity* in the process. This occurs when funds are *pooled* and not tracked for repayment. In this case, funds are blended or combined in such a way that the funds lose their identity and are difficult to trace back to their original source.

When non-related entities' loan funds are commingled and one entity collapses, creditors have limited recourse because the entity who lent money is also a creditor. Creditors in this case would be allowed to pursue payment from the assets of the collapsed organization but not the lending entity. In the case of AEALAS charter schools operating under one federal identification number and operating as one organization, if one charter school fails creditors have recourse to AEALAS, Inc.

The AEALAS charter schools and CMO operate as a consolidated group under the same reporting federal identification number, and the Foundation supports the growth of the AEALAS group of charter schools. The funds used to provide financial assistance to the AEALAS group of entities are accounted for separately in each organization's accounting books and have not lost the funds' identity. Since the loaned funds are tracked in the accounting records and the audit trail preserves the identity of the funds, the lent or shared funds are not commingled.

Based on the accounting records of AEALAS, the inter-organization loans between the AEALAS family of charter schools, CMO, and Foundation are auditable and traceable, have not lost their identity, and therefore are not commingled.

Providing financial assistance to the same commonly controlled group of entities where funds are accounted for properly and retain their identity offers the operational alternative between costly selling of charter school receivables and using funds from all consolidated AEALAS entities to help the organization through financial hardships. Because of state attendance apportionment funding deferrals over the past several years, many charter schools have experienced cash shortages and a need for short-term bridge loans, long-term borrowing options, and receivables sales. Operating as one AEALAS organization benefits the organization in purchasing power, economies of scale, and helps each entity and school site to succeed.

The AEALAS charter petition states: "There are no financial arrangements for any charter school operated by AEALAS, Inc. to provide financial assistance to any other entity." This contradicts current practice as AEALAS is providing financial assistance to other AEALAS entities. Therefore, the statement must be amended or the practice of providing financial assistance must cease.

FCMAT's analysis of AEALAS fiscal year 2013-14 accounting records identifies that funds are not commingled; however, financial assistance such as loans between AEALAS charter schools, CMO, and the Foundation are occurring.

- The volume of loan transactions, fiscal year end balances of loans, and continued financial assistance between AEALAS charter schools, CMO, and Foundation have been significant and ongoing over the past two years and the charter petition statements that no financial assistance will be provided has been ignored.
- AEALAS has no written accounting policies and procedures defining how inter-organizational lending of funds is determined. Without written procedures the school districts and county offices of education responsible for oversight of the AEALAS charter schools have not been provided the opportunity to review, approve or deny any inter-organizational loans to those schools, or request that the charter school's charter petition be revised to agree with AEALAS's actual loaning practices.
- As previously mentioned, the internal control system of AEALAS contains *significant deficiencies*. Significant deficiencies communicate that the AEALAS organization as a whole has internal control deficiencies, including deficiencies in the proper documentation, recording, and management of inter-organization loans.

Financial Assistance and Fees Between AEALAS Organizations

The CMO has three primary sources of cash. These include a \$1,150,000 line of credit, private donors including AEALAS senior management who lent their personal funds, and fees charged to the charter schools for management services. The CMO accounting records demonstrate a history of loans from the charter schools to the CMO, and loans from the CMO to the Foundation. From July 2012 through June 2014, the CMO has charged more than \$600,000 to AEALAS charter schools located in San Diego, Santa Clarita Valley, and Valencia/Thousand Oaks.

CMO Management Fees

When FCMAT examined the supporting documentation for the management oversight fees assessed the charter schools, the only documentation provided was invoices that stated “Monthly Charge CMO per Enrolled Student.” The CMO fee does not detail the number of students, rate per student, or any other contractual information that would provide further credibility for fees assessed to the AEALAS charter schools. The CMO fees charged to the AEALAS charter schools provide substantial financial resources to lend funds to AEALAS entities.

The CMO charged AEALAS charter schools fees as follows:

- AEALAS-AlpineEA paid the CMO in fiscal 2013-14 approximately \$154,000 in fees.
- AEALAS-Acton paid the CMO in fiscal 2013-14 approximately \$280,000 in fees.
- AEALAS-Hart paid the CMO in fiscal 2013-14 approximately \$169,000 in fees.

Single Vendor Payments

The FCMAT team’s transaction sampling of the Foundation found:

- Two checks written to Edestination totaling \$11,500 of which \$1,500 was written in February 2014 for consulting but was missing complete audit trail documentation. The second check of \$10,000 and dated in December 2013 was attributable to consulting and travel related expenses to Ohio, Florida, and San Diego.
- One check of \$40,000 written to Church on the Rise in June 2013 for the AEALAS-Ohio facilities lease and lease deposit.
- One check of \$60,000 written to Corporate Center Drive in December 2013 for the AEALAS-TO lease settlement agreement.
- One check of \$25,000 written to Jewish Live TV in November 2013 for advertising. No audit trail documentation was available to specify the purpose of the \$25,000 in advertising content, what was gained from the advertising, or the advertising terms.

Loans

Table IV-A shows the combined loan transactions between the Foundation and other AEALAS organizations in or near the end of June 2014. The purpose of the table IV series of exhibits is to provide an overview of the quantity and direction of the AEALAS financial assistance to its organizations.

The loan transactions in tables IV (A through E) totaling \$1,030,404 listed in the following table and series of exhibits were provided to FCMAT during the audit while the accounting books were not closed for the fiscal year; therefore, the balances do not include final audit adjustments

and/or audited inter-organization loan transactions as of June 30, 2014 that may have been booked subsequent to FCMAT's fieldwork.

Table IV-A

Foundation Books Loans		
Description	From	To
Hart	566,743	70,000
Acton		37,529
AlpineEA		126,663
CMO	229,469	
Foundation	234,192	796,212
Totals	\$ 1,030,404	\$ 1,030,404

AEALAS-AlpineEA accounting records indicate that it has lent funds to AEALAS-Hart and has borrowed funds from AEALAS-Acton as demonstrated in Table IV-B below.

Table IV-B

AlpineEA Books Loans		
Description	From	To
Hart		164,274
Acton	5,000	
AlpineEA	164,274	5,000
Totals	\$ 169,274	\$ 169,274

AEALAS-Acton accounting records indicate that it has lent funds to AEALAS-Hart.

Table IV-C illustrates the loans between the AEALAS-Acton and other AELAS organizations as of approximately the end of June 2014.

Table IV-C

Acton Books Loans		
Description	From	To
Hart		9,345
Acton	9,345	
Totals	\$ 9,345	\$ 9,345

AEALAS-Hart accounting records indicate that it has lent funds to AEALAS-Acton and AEALAS-TO.

Table IV-D illustrates the loans between the AEALAS-Hart and other AELAS organizations as of approximately the end of June 2014.

Table IV-D

Hart Books Loans		
Description	From	To
Hart	167,797	
Acton		167,244
TO		553
Totals	\$ 167,797	\$ 167,797

The CMO accounting records indicate that it has lent funds to AEALAS-Hart, and received loans from AEALAS-Acton and AEALAS-AlpineEA. Table IV-E illustrates the loans between the CMO and other AELAS organizations as of approximately the end of June 2014.

Table IV-E

CMO Books Loans		
Description	From	To
Hart		54,673
Acton	119,016	
AlpineEA	117,569	
CMO	54,673	291,258
Totals	\$ 291,258	\$ 345,931

Conflict of Interest

The AEALAS governing board has adopted Board Policy #7B, Conflicts of Interest Code Pursuant to the Political Reform Act of 1974 (Government Code Section 87100). The AEALAS conflict of interest Board Policy #7B states:

“The Governing Board hereby adopts this Conflict of Interest Code (“Code”), which shall apply to all governing board members, candidates for member of the board, and all other designated employees of AEALAS (“School”) ...” Designated Employees” are employees of the School, Board members and candidates, who hold positions that involve the making or participation in the making of decisions that may foreseeably have a material effect on any financial interest.”

Designated employees are defined in the AEALAS Board Policy #7B’s Exhibit A as, but not limited to, members of the governing board, director of charter school, assistant director, chief business officer, director of personnel services, assistant director of personnel services and some consultants.

FCMAT examined the available AEALAS Form 700 – Statement of Economic Interests. California Form 700 instructions, in the section “When to file,” state that most “other filers” are

required to file Form 700 annually by April 1 unless there are exceptions. Based on FCMAT's review of AEALAS's Form 700s, AEALAS does not qualify for any exceptions.

Form 700 financial interest disclosures are schedules A-1, A-2, and B through E, or six disclosures representing the filer's stocks, business entities, rental property in the jurisdiction, non-governmental salaries of public official and spouse/registered domestic partner, gifts from businesses such as tickets to sporting and entertainment events, and travel payments from third parties. All Form 700s must be signed with an original wet signature unless the filing officer of the organization has authorized filing of Form 700 under Government Code Section 87500.2. AEALAS did not present any documentation that supports electronic filing of Form 700; therefore, all AEALAS Form 700s should be signed.

A total of 27 Form 700s were provided by AEALAS, representing past and present board members. An examination of these 27 documents revealed the following:

1. Six forms represent current board members, and 21 represent former board members.
2. Two former board members failed to check the box in Form 700 to indicate there are no financial interests reported in any of the accompanying schedules. When the financial interest box is not checked, it means that financial interests are disclosed in the supporting schedules. The two former board members failed to present any of the six financial interest schedules A-1, A-2 through E.
3. One former board member failed to sign the form.
4. Three of the six current board members failed to file a current year 2014 Form 700, or a Form 700 was not available for review.
5. Only one Form 700 was filed by an AEALAS officer, dated March 15, 2011, and no designated employee or consultant Form 700s were available to be reviewed by FCMAT. Based on FCMAT's review, additional AEALAS Form 700 filings that should have been required or were not available are:
 - a. Consulting services for charter school back office service providers CSMC and EdHive.
 - A consultant that will make or participate in making governmental decisions may file California Form 805 – Agency Report of Consultants, which is a public document and an internal form maintained by the agency in the same manner as the agency's conflict of interest code.
 - b. All AEALAS charter school directors and principals.
 - d. All officers of AEALAS including but not limited to the president, chief academic officer, chief executive officer, chief financial officer, regional directors, and senior accountant.

FCMAT's sampling of vendor transaction records did not identify any relationships or financial transactions that represent a conflict of interest.

Government Code 1090 – Financial Interest of Public Officials, Officers and Employees

Simply stated, the intent of Government Code 1090 is to prohibit a public official, officer or employee from engaging in a contract in which he or she has a financial interest in both a governmental and personal capacity.

Section 1090 has broad implications, applies to school districts and can also apply to charter schools if included in the charter petition or the memorandum of understanding. AEALAS has established that Section 1090 applies, which states:

Members of the Legislature, state, county, district, judicial district, and city officers or employees shall not be financially interested in any contract made by them in their official capacity, or by anybody or board of which they are members. Nor shall state, county, district, judicial district, and city officers or employees be purchasers at any sale or vendors at any purchase made by them in their official capacity.

As used in this article, “district” means any agency of the state formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.

Student Fees

Student fees are governed by Education Code Section 49010 and Section 5 of Article IX of the California Constitution. Education Code Section 49010 states:

For purposes of this article, the following terms have the following meanings:

(a) “Educational activity” means an activity offered by a school, school district, charter school, or county office of education that constitutes an integral fundamental part of elementary and secondary education, including, but not limited to, curricular and extracurricular activities.

(b) “Pupil fee” means a fee, deposit, or other charge imposed on pupils, or a pupil’s parents or guardians, in violation of Section 49011 and Section 5 of Article IX of the California Constitution, which require educational activities to be provided free of charge to all pupils without regard to their families’ ability or willingness to pay fees or request special waivers, as provided for in *Hartzell v. Connell* (1984) 35 Cal.3d 899. A pupil fee includes, but is not limited to, all of the following:

- (1) A fee charged to a pupil as a condition for registering for school or classes, or as a condition for participation in a class or an extracurricular activity, regardless of whether the class or activity is elective or compulsory, or is for credit.
- (2) A security deposit, or other payment, that a pupil is required to make to obtain a lock, locker, book, class apparatus, musical instrument, uniform, or other materials or equipment.
- (3) A purchase that a pupil is required to make to obtain materials, supplies, equipment, or uniforms associated with an educational activity.

Education Code Section 49011 is referenced with Education Code Section 49010, and states:

- (a) A pupil enrolled in a public school shall not be required to pay a pupil fee for participation in an educational activity.
- (b) All of the following requirements apply to the prohibition identified in subdivision (a):
 - (1) All supplies, materials, and equipment needed to participate in educational activities shall be provided to pupils free of charge.
 - (2) A fee waiver policy shall not make a pupil fee permissible.
 - (3) School districts and schools shall not establish a two-tier educational system by requiring a minimal educational standard and also offering a second, higher educational standard that pupils may only obtain through payment of a fee or purchase of additional supplies that the school district or school does not provide.
 - (4) A school district or school shall not offer course credit or privileges related to educational activities in exchange for money or donations of goods or services from a pupil or a pupil's parents or guardians, and a school district or school shall not remove course credit or privileges related to educational activities, or otherwise discriminate against a pupil, because the pupil or the pupil's parents or guardians did not or will not provide money or donations of goods or services to the school district or school.
- (c) This article shall not be interpreted to prohibit solicitation of voluntary donations of funds or property, voluntary participation in fundraising activities, or school districts, schools, and other entities from providing pupils prizes or other recognition for voluntarily participating in fundraising activities.
- (d) This article applies to all public schools, including, but not limited to, charter schools and alternative schools.
- (e) This article is declarative of existing law and shall not be interpreted to prohibit the imposition of a fee, deposit, or other charge otherwise allowed by law.

The team sampled cash receipt and deposit transactions to determine if AEALAS students are currently, or have been charged a pupil fee, or charged for supplies or other fees that are not disallowed per Education Code.

As stated in the internal control section of this report, the internal control system of AEALAS has significant deficiencies, including the detailed documentation of cash receipts and deposits.

For many cash receipt transactions, including donations, AEALAS failed to formally document cash and checks collected and deposited. In numerous instances of cash receipt transactions FCMAT sampled, only a deposit slip was available and the deposit was missing photocopies of checks that support the deposit amount. Conversely, stacks of check photocopies were available but missing a deposit slips or deposit date that would identify which checks belonged to each deposit. Many of these poorly documented checks could not be directly traced back to the AEALAS accounting records.

To obtain a representative sample of cash receipts transactions that might provide some evidence of the allegation that student fees may be charged to students, FCMAT expanded its cash receipt sample as described in Table II to 421 cash receipt transactions. The transaction sampling

including examining the memo section of the check written by the parent or check maker. The sampling identified that 69 check memo descriptions did not have any description of the transaction written in the memo section of the check; therefore, the purpose of the check could not be definitively determined.

Of the remaining 352 cash receipt transactions that did contain check memo descriptions, most denoted that the checks were written for yearbook purchases, fundraising, and transportation donations.

Based on the FCMAT sample of cash receipt transactions of AEALAS and because of the significant deficiencies in AEALAS cash receipt internal controls, FCMAT was not able to determine if prohibited student fees are or have been charged to students.

Other Findings

During FCMAT's examination of AEALAS books and records, other notable findings involved pledged commitments as part of the charter petitions. AEALAS charter petitions relied on significant and material dollar amount donations from the Foundation to support several charter petitions included in the proposed startup financial budgets. The Foundation's accounting records show that at no time did its cash accounts have available funding levels to honor the commitments made in the charter petitions to the authorizing entities. Specific examples include:

- The AEALAS-TO charter petition submitted to the Ventura County Office of Education in November 2012 states on page 8 of the financial plan: "The plan includes a starting balance of \$275,000 based on an existing commitment of funds to the school." The funds are committed by the Foundation and scheduled in the AEALAS-TO charter petition financial plan on Table X cash flow to be received in July 2013.
- The Saugus Union School District August 2012 charter petition that was denied by the district included in the proposed charter petition a commitment letter from the Foundation of \$150,000 to be received February 1, 2013 and \$150,000 to be received August 1, 2013.
- The AEALAS San Fernando Valley charter petition that was denied by the charter authorizer included in the proposed AEALAS San Fernando Valley charter petitions' multiyear budget, that in July 2012, the Foundation would donate \$275,000 "if needed."
- FCMAT's review of the Foundation's QuickBooks software accounting records from the date of the Foundation's first transaction recorded on April 30, 2012 through June 4, 2014 revealed that the daily balance never had combined or individual cash of \$150,000. In other words, the Foundation records indicate that the Foundation did not have the ability to pledge or pay the stated donations in the proposed charter school petitions of \$150,000 (Saugus petition) or \$275,000 (San Fernando Valley).
- The largest cash balance that the Foundation possessed in any of its cash accounts was in its primary checking account, with a balance of \$148,379.51 on July 5, 2013. The temporary large cash balance is attributable to an influx of funds lent to the Foundation by the CMO on the same day, July 5, 2013, totaling \$150,700. Two days earlier on July 3, 2013, the primary checking account balance was negative by \$2,320.49.
- By July 8, 2014, the primary checking account balance was spent down to \$4,100.40 because the Foundation used the CMO funds received on July 5, 2013 to make

payments for individuals who had lent the Foundation money, loan funds to AEALAS charter schools, and paid current obligations.

- The Foundation account titled Outside Contract Services contains 40 checks dated December 17, 2013, of \$599.99 each and totaling \$23,999.60 that were paid to employees of AEALAS-Hart. The checks do not describe the purpose of the payment, or type of contract service each of the AEALAS-Hart employees performed to receive \$599.99 in compensation.

AEALAS was unable to provide any Internal Revenue Service (IRS) form W-9s signed by the 40 independent contractors. A signed IRS form W-9 – Request for Taxpayer Identification Number and Certification should be required for all independent contractors regardless of the amount the contractor or consultant earns from the organization as a practice of a good system of internal controls.

According to IRS publications specific to issuing IRS Form 1099, if the cumulative earnings of an independent contractor are \$600 or more, the Foundation would have been required to issue a 1099-Misc to each contractor. Because a signed W-9 was not provided to FCMAT, each contractor who received the \$599.99 may have been subject to the IRS's 28% backup withholding requirement. In any event, the payment to each employee/contractor is reportable income and should have been included on the individual tax return.

The Foundation is designated to serve the AEALAS charter schools, issue consolidated charter school and CMO financial reports. The AEALAS organizations transfer and lend money among themselves, pay expenses for each other, and operate under common management and control. Therefore, the Foundation and other AEALAS organizations may be considered one group entity. For these and other reasons described, transactions such as paying employees as independent contractors may also be considered as circumventing payroll tax withholding and an attempt to avoid paying the employer's portion of payroll taxes.

Finally, paying for unsubstantiated work by AEALAS-Hart charter school employees with Foundation funds may be considered a gift of public funds and allowed management to override internal controls. This is a critical internal control point because management should be the final check and balance that prevents such transactions.

Judgments Regarding Guilt or Innocence

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud has occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the state controller, the superintendent of public instruction and the local district attorney.

In accordance with Education Code Section 1241.5(b), the county superintendent shall report the findings and recommendations to the governing board of the charter at a regularly scheduled board meeting within 45 days of completing the audit. The governing board of the charter school shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

AB 139 Extraordinary Audit Report Summary

Based on the findings in this report, there is not sufficient evidence to demonstrate that fraud, mismanagement and misappropriation of funds and assets or other illegal activities may have occurred. However, significant deficiencies in the charter's internal control environment exist and increase the probability of fraud and/or abuse. These findings should be of great concern to the charter's governing board and the Los Angeles County Office of Education and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

Recommendations

The county superintendent should:

1. Notify the governing board of AEALAS that insufficient documentation exists that fraud, misappropriation of charter funds and/or assets or other illegal activities may have occurred and that the county office has concluded its review.

AEALAS should:

1. Consolidate its back office service provider accounting into one provider. AEALAS has already implemented consolidating back office service providers with an effective date of July 1, 2014.
2. Update the AEALAS accounting policies and procedures manual to include detailed policies and procedures setting out all aspects of AEALAS's accounting and financial transactions and internal control system procedures. The AEALAS accounting policies and procedures manual should include but not be limited to written policies specific to:
 - a. Inter-organizational lending and transferring of funds.
 - b. One organization paying for expenditures of another.
 - c. Detailed descriptions and examples of CMO fee charges.
 - d. Proper determination of the requirements to considered an independent contractor.
 - e. When and how conflict of interest forms should be completed.
 - f. How required documents such as W-9s and Form 700 will be monitored, filed, and accounted for to ensure they are kept current.
 - g. Include sample forms when applicable.
 - h. Ensure the documents such as loans and contacts/agreement and other documents that require governing board approval have approval documentation accompanying such documents.
3. Submit accounting policies and procedure manual for governing board approval and charter agency oversight review and approval.

4. Consolidate and define record keeping lines of authority and responsibilities for all audit trail documentation for all accounting functions and all aspects of the accounting cycle for the following:
 - a. Cash disbursements and expenditures.
 - b. Deposits and cash receipts.
 - c. Contracts and agreements.
 - d. Conflict of interest Forms 700 and 805.
 - e. Governing board minutes.
 - f. Payroll and human resources.
 - g. Financial and compliance reporting.
5. Implement a charter petition and charter petition financial budget review committee that reviews and aligns all aspects of charter petition statements, conditions, pledges, documents, and deliverables with the actual practices and accounting policies and procedures of the entire AEALAS organization.
6. Have the Foundation, as a precautionary measure, inform each employee who received an independent contractor \$599.99 check in December 2013 that even though they may not have received a federal Form 1099 from the Foundation for the tax year 2013, they are required to include the \$599.99 as part of their own personal income for income tax reporting purposes.

Appendices

Appendix A

Notes from Independent Auditor's Reports

Appendix B

Organization Charts

Appendix C

Study Agreement

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
(A California Nonprofit Public Benefit Corporation)
NOTES TO THESE AUDITED FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Nature of Activities – Albert Einstein Academy for Letters, Arts and Sciences (AEALAS), a California not-for-profit public benefit corporation, is a public co-educational charter school located in Santa Clarita, California. AEALAS was approved by the California State Board of Education and the Board of Trustees of William S. Hart Union High School District (the Sponsoring District) to serve grades seven through twelve. AEALAS receives public per-pupil funding to help support its operations and, therefore, it is economically dependent on Federal and state funding provided through the California Department of Education and the Sponsoring District.
- B. Date of Management's Review – Management has evaluated subsequent events through October 1, 2012, the date on which the financial statements were available to be issued.
- C. Basis of Presentation – The accounts of the Academy are maintained, and these financial statements are presented on the accrual basis of accounting.
- D. Financial Statement Presentation – AEALAS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.
- E. Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure or 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.
- F. Cash and Cash Equivalents – For the purpose of the statement of cash flows, the Academy considers cash and cash equivalents as all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.
- G. Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management writes-off uncollectible amounts through a charge to bad debt expense account and an adjustment to accounts receivable. There were no bad debts expenses for the year ended June 30, 2012.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
 (A California Nonprofit Public Benefit Corporation)
NOTES TO THESE AUDITED FINANCIAL STATEMENTS
 June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

- H. Capital Assets – Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress, purchased or acquired with an original cost of \$2,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all equipment is provided on the straight-line basis over the various estimated useful lives ranging from five to seven years. Depreciation on tenant improvements is provided on the straight-line basis over the shorter of the lease terms or useful life.
- I. Revenue Limit Sources – The revenue limit is the basic financial support for AEALAS activities. There are two sources of revenue limit income: State aid and revenue in lieu of local property taxes.
- J. Donated Property and Equipment – Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, AEALAS reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. AEALAS reclassifies temporarily restricted net assets to unrestricted net assets at that time.
- K. Donated services – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by AEALAS. Volunteers also provided tutoring and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.
- L. Income Taxes – AEALAS is exempt from income tax and California franchise tax pursuant to IRC Section 501(c)(3) and state of California Revenue and Taxation Code Section 237(d).

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
 (A California Nonprofit Public Benefit Corporation)
NOTES TO THESE AUDITED FINANCIAL STATEMENTS
 June 30, 2012

NOTE 2: CASH IN BANK

The Academy's cash and investments at June 30, 2012, consisted of cash deposits at various Financial Institutions with a total balance of \$36,232.

NOTE 3: SCHEDULE OF CAPITAL ASSETS

A summary of changes in general fixed assets follows:

	Balance 7/1/11	Additions	Deletions	Balance 6/30/12
Fixed assets, being depreciated:				
Building Improvements	\$209,872	\$ -	\$ -	209,872
Furniture and Fixtures	58,243	4,475	-	62,718
Equipment	43,581	8,000	-	51,581
Total Depreciated Capital Assets	311,696	12,475	-	324,171
Less accumulated depreciation for:				
Building Improvements	(757)	(15,829)	-	(16,586)
Furniture and Fixtures	(9,992)	(12,097)	-	(22,089)
Equipment	(10,387)	(13,913)	-	(24,300)
Total accumulated depreciation	(21,136)	(41,839)	-	(62,975)
Fixed assets, non-depreciated:				
Construction in progress	-	257,153	-	257,153
Total capital assets, net	\$290,560	\$ 227,789	\$ -	\$ 518,349

NOTE 4: CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2012 consists of leasehold improvements on extension of the site to accommodate more students, new science lab, and other functional rooms. These extensions will be ready to use for the school year 2012-2013 (see Note 11 B). Total construction in progress at June 30, 2012 was \$257,153.

NOTE 5: NOTES PAYABLE

AEALAS obtained a revolving loan from the California Department of Education on April 28, 2011 in the amount of \$250,000. The loan bears an interest rate of 0.41%. The term of the loan is four years and it will mature on April 27, 2015.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2012

NOTE 5: NOTE PAYABLE (Cont'd.)

An additional interest free note of \$125,000 was signed to settle the legal dispute on leasehold improvements done by the landlord (see Note 7 B). The note requires 48 monthly payments of \$2,604 starting September 2011.

Future repayments of the notes are as follows:

<u>Fiscal Year Ending</u>	<u>CDE Loan</u>	<u>Settlement Payment</u>	<u>Total</u>
Short-Term:			
June 30, 2013	\$ 62,500	\$ 31,248	\$ 93,748
Long-Term:			
June 30, 2014	62,500	31,248	93,748
June 30, 2015	62,500	31,248	93,748
June 30, 2016	-	5,209	5,209
Total Long-Term	<u>125,000</u>	<u>67,705</u>	<u>192,705</u>
Total Notes Payables	<u>\$ 187,500</u>	<u>\$ 98,953</u>	<u>\$ 286,453</u>

Furthermore, AEALAS entered into various short term promissory notes with various parties, including related parties (see Note 9). As of June 30, 2012, AEALAS has outstanding promissory note balance of \$637,450. These promissory notes carry an interest rate of 1% and are due within 365 days from the origination date.

<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
\$ 134,450	\$ 823,500	\$ (320,500)	\$ 637,450

NOTE 6: CONTINGENCIES

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

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
 (A California Nonprofit Public Benefit Corporation)
NOTES TO THESE AUDITED FINANCIAL STATEMENTS
 June 30, 2012

NOTE 7: COMMITMENTS

- A. Lease Obligation - AEALAS is obligated under an operating lease agreement with Willgro for the rental property at 28141 Kelly Johnson Parkway, Santa Clarita, California as of May 5, 2010. The term of the lease is for five years commencing September 1, 2010 and will end on August 31, 2015. AEALAS has an option of renewing the lease for additional two terms of five-year periods.

Total property lease expense for the fiscal year ended June 30, 2012 was \$244,709. Future minimum lease payments under this operating lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2013	\$ 260,000
June 30, 2014	284,000
June 30, 2015	308,000
June 30, 2016	52,000

Furthermore, AEALAS entered into a month to month equipment lease for a minimum lease payment of \$210 starting August 1, 2011.

B. Settlement of Legal Dispute

AEALAS and the landlord, Willgro Properties (a California Limited Partnership) entered into a Settlement Agreement on September 5, 2011. In an action brought by Willgro Properties alleging AEALAS failed to reimburse Willgro Properties for construction and permit costs. The parties agreed that AEALAS will pay a total of \$200,000 to Willgro Properties in the following manner:

- (a) A lump sum of \$75,000;
- (b) \$2,604 in increased rent commencing September 2, 2011 and continuing through the end of the original term of the lease; and
- (c) Notwithstanding paragraph (a) and (b), if the lease premises are sold on or before the end of the original term of the lease, the entire unpaid balance of the \$200,000 shall be due and payable immediately.

C. Open Construction Contracts

AEALAS has a construction project in progress (see Note 4) with two construction contracts still open. Net unfinished and unbilled contracts at June 30, 2012 were \$748,090.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2012

NOTE 8: CONCENTRATION OF RISK

AEALAS maintains its cash balances in several financial institutions. The balances in these institutions at times exceeded the Federal Deposit Insurance Corporation insurance limit of \$250,000 per institution. At June 30, 2012, all AEALAS deposits were totally insured.

NOTE 9: RELATED PARTY

- A. Foundation – AEALAS has established the AEALAS Foundation (the Foundation), a non-profit corporation under the Internal Revenue Code 501(c)(3), as a supporting organization to the charter school. No benefit received from or paid to the Foundation during the fiscal year ended June 30, 2012. Currently, the Foundation is handling the extension process of the educational programs to include elementary school (see Note 11 C).
- B. Short-Term Loans – Some of the short-term borrowings to cover the cash flow problem caused by state deferrals are provided by related parties including the Founder, board members, and AEALAS administrators, including family and friends (see Note 5).

NOTE 10: TAX YEARS OPEN FOR EXAMINATION

As of the date of these financial statements, AEALAS' Form 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2010, 2011 and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Furthermore, AEALAS Form 199, *California Exempt Organization Annual Information Return*, for fiscal years ended June 30, 2010, 2011, and 2012, are subject to examination by California Franchise Tax Board, generally for four years after they were filed.

NOTE 11: SUBSEQUENT EVENT

- A. AEALAS is in the process of issuing bonds - California Statewide Communities Development Authority Albert Einstein Academy Project, Series 2012 A&B. The proceeds from the 30-year bonds in the amount of \$6,175,000 are planned to be used for the acquisition of the facility and the payment of the construction of the facility extension that is in progress at June 30, 2012 (see Note 4 and Note 7 C).

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2012

NOTE 11: SUBSEQUENT EVENT (Cont'd.)

- B. Construction of the science labs and other rooms has been completed and the extended parts of the building were available to be used on August 20, 2012, the first day of the school year.
- C. AEALAS charter petition is in the review process. AEALAS is petitioning for elementary school charter with the Saugus District. If approved, AEALAS will start offering elementary grade levels.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Nature of Activities – Albert Einstein Academy for Letters, Arts and Sciences (AEALAS), a California not-for-profit public benefit corporation, is a public co-educational entity established in November 2009 with the purpose of operating public, non-sectarian charter schools serving grades K through 12.

Initially, AEALAS had one charter school located in Santa Clarita, California. The school, Albert Einstein Academy, Santa Clarita (AEA Santa Clarita) was approved by the California State Board of Education and the Board of Trustees of William S. Hart Union High School District (Hart District), the sponsoring district, to serve grades seven through twelve. AEALAS receives public per-pupil funding to help support its operations and, therefore, it is economically dependent on government funding provided through the California Department of Education and the Sponsoring District.

Unlike previous years, AEALAS did not receive any federal revenue grants for the fiscal year 2012-2013 and therefore, there were no federal expenditures.

On January 4, 2012, AEALAS created a foundation, AEALAS Foundation (the Foundation), to support AEALAS' operations (see NOTE 14 for related party transactions). The Foundation's major activity so far has been to facilitate AEALAS' expansion.

For the fiscal year ending June 30, 2013, AEALAS still had only one charter school, AEA Santa Clarita, in operation; however, AEALAS has created a segment within the entity, referred as Charter Management Organization (CMO) that has been working with the Foundation to process petitions for additional charter schools. The main purpose of the CMO is to oversee the creation and operations of all charter schools opened under AEALAS. For additional charter schools opened (see subsequent events at NOTE 15).

For fiscal year ended June 30, 2013, AEALAS identified each financial transaction as either CMO or as AEA Santa Clarita. Therefore, this report is presenting the financial activities of these two segments of AEALAS, Inc. in separate columns and an additional column that eliminates the intercompany activities (see NOTE 4 for intercompany activities).

- B. Date of Management's Review – Management has evaluated subsequent events through December 31, 2013, the date on which the financial statements were available to be issued.
- C. Basis of Presentation – The accounts of AEALAS are maintained, and these financial statements are presented on the accrual basis of accounting.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

(A California Nonprofit Public Benefit Corporation)

NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

- D. Financial Statement Presentation – AEALAS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by the action of AEALAS and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by AEALAS. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

- E. Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure or 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.
- F. Cash and Cash Equivalents – For the purpose of the statement of cash flows, AEALAS considers cash and cash equivalents as all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.
- G. Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management writes-off uncollectible amounts through a charge to bad debt expense account and an adjustment to accounts receivable. There were no bad debts expenses for the year ended June 30, 2013.
- H. Capital Assets – Capital assets, which include land, buildings, furniture and fixtures, and equipment, purchased or acquired with an original cost of \$2,500 or more are reported at historical cost or estimated historical cost, net of depreciation. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capitalized bond issuance costs are amortized on a straight-line basis over the life of the bond.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Depreciation and amortization on all capital assets are provided on the straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Building	40
Machinery and equipment	5 to 7
Furniture and fixture	5 to 7
Cost of bond issuance	30

- I. Revenue Limit Sources – The revenue limit is the basic financial support for AEALAS activities. There are three sources of revenue limit income: State aid, in lieu of local property taxes, and education protection account.
- J. Donated Property and Equipment – Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, AEALAS reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. AEALAS reclassifies temporarily restricted net assets to unrestricted net assets at that time.
- K. Donated Services – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by AEALAS. Volunteers also provided tutoring and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.
- L. Compensated Absences – AEALAS' all year employees earn ten days of paid time off (PTO) every year. Any unused PTO at the end of the year is accrued and included under payroll liabilities. AEALAS employees used all their PTO during the year and therefore, there is no PTO accrued for the fiscal year ended June 30, 2013.
- M. Income Taxes – AEALAS is exempt from income tax and California franchise tax pursuant to IRC Section 501(c)(3) and state of California Revenue and Taxation Code Section 23701(d).

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

AEALAS has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal, state, and local levels. The tax positions evaluated are possible unrelated business income activities that could be taxable and the ability of the entity to continue qualifying as a tax-exempt organization.

No disclosures of uncertain income tax positions are required since management has determined that all income tax positions are more likely than not (more than fifty percent) of being sustained upon potential audit or examination.

As of the date of these financial statements, AEALAS' Form 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2011, 2012 and 2013 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Furthermore, AEALAS' Form 199, *California Exempt Organization Annual Information Return*, for fiscal years ended June 30, 2010, 2011, 2012 and 2013, are subject to examination by California Franchise Tax Board, generally for four years after they were filed.

NOTE 2: CASH IN BANK

AEALAS' cash and investments at June 30, 2013, consisted of cash deposits at various financial institutions with the total balance of \$600,607 of which a total of \$568,997 is held by bond trustee for bond requirements (see Note 11) and \$100,000 is placed in a Certificate of Deposit as collateral for a bank loan (see Note 8). That leaves no cash available for operations as of June 30, 2013.

NOTE 3: RECEIVABLES

AEALAS has an agreement with Charter School Capital (CSC) to sell up to \$7,000,000 of its receivables from state apportionment to cover short term cash flow needs. As of June 30, 2013, AEALAS has sold \$755,100 worth of receivables without recourse. CSC assumes all the risks of uncollectible receivables purchased from AEALAS. The total cost of selling these receivables was \$55,617, including discount fees and program fees.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 3: RECEIVABLES (Cont'd.)

Receivables at June 30, 2013 were as follows:

Receivables from the State:	
Grants and apportionment	\$ 972,639
Less: receivables sold to CSC	(755,100)
Net receivables	<u>\$ 217,539</u>

NOTE 4: INTERCOMPANY RECEIVABLES AND PAYABLES

AEALAS records all transactions between AEA Santa Clarita and the CMO as intercompany transactions. The net intercompany balance at June 30, 2013, shows a net receivable of \$354,260 for AEA Santa Clarita and a net payable of the same amount for the CMO. The financial report shows the summary of these transactions under assets and liabilities of each segment in separate columns, for the CMO and AEA Santa Clarita, then, eliminates the transactions in the total column.

All transactions paid on behalf of other schools, were reported as a loan to the Foundation and presented on this report as other receivables (see Note 5 and Note 14).

The following is the summary of intercompany balances at June 30, 2013:

	CMO	AEA Santa Clarita	Total
Intercompany receivables	\$ 1,245,274	\$ 1,599,534	\$2,844,808
Intercompany payables	(1,599,534)	(1,245,274)	(2,844,808)
Net receivables (payables)	<u>\$ (354,260)</u>	<u>\$ 354,260</u>	<u>\$ -</u>

NOTE 5: OTHER RECEIVABLES

At June 30, 2013, other receivables consist of the following:

Overpayment of loans payable	\$ 4,000
Receivables from the Foundation	457,481

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES
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NOTES TO THESE AUDITED FINANCIAL STATEMENTS
 June 30, 2013

NOTE 6: SCHEDULE OF CAPITAL ASSETS

A summary of changes in general fixed assets follows:

	Balance 7/1/12	Additions	Reclassified	Balance 6/30/13
Capital assets, being depreciated:				
Building	\$ -	\$ 2,793,235	\$ 835,094	\$ 3,628,329
Building improvements	209,872	5,504	(215,376)	-
Furniture and fixtures	62,718	28,751	-	91,469
Equipment	51,581	-	-	51,581
Total depreciated capital assets	324,171	2,827,490	619,718	3,771,379
Less accumulated depreciation	(62,975)	(86,444)	-	(149,419)
Net depreciated capital assets	261,196	2,741,046	619,718	3,621,960
Capital assets, being amortized:				
Bond issuance costs	-	414,376	-	414,376
Accumulated amortization	-	(8,057)	-	(8,057)
Net amortized capital assets	-	406,319	-	406,319
Capital assets, non-depreciated:				
Land	-	1,750,000	-	1,750,000
Construction in progress	257,153	362,565	(619,718)	-
Net non-depreciated capital assets	257,153	2,112,565	(619,718)	1,750,000
Total capital assets, net	\$ 518,349	\$ 5,259,930	\$ -	\$ 5,778,279

NOTE 7: ACCOUNTS PAYABLE

At June 30, 2013, accounts payable consisted of the following:

	CMO	AEA Santa Clarita	Total
Payable to:			
Vendors	\$ 25,184	\$ 1,624	\$ 26,808
Interest on loans - related party	-	6,750	6,750
Hart District - oversight fees	-	20,382	20,382
Hart District - Special Ed fair shair	-	16,373	16,373
Total payables	\$ 25,184	\$ 45,129	\$ 70,313

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 8: LOANS PAYABLE

AEALAS obtained a revolving loan from the California Department of Education on April 28, 2011 in the amount of \$250,000. The loan bears an interest rate of 0.41%. The term of the loan is four years and it will mature on April 27, 2015.

Additionally, AEALAS obtained \$100,000 loan from Mission Valley Bank (MVB) at an annual interest rate of 3.45 percent. The loan requires collateral of \$100,000 that is held in a Certificate of Deposit at MVB.

The following summarizes the fiscal year 2012-2013 activities on the two loans:

	Balance at 6/30/2012	Additions	Payments	Balance at 6/30/2013
Revolving loan	\$ 187,500	-	(62,500)	125,000
Loan from MVB	-	100,000	(10)	99,990
Total	<u>\$ 187,500</u>	<u>\$ 100,000</u>	<u>\$ (62,510)</u>	<u>\$ 224,990</u>

Future repayments of the notes are as follows:

Fiscal Year Ending	Revolving Loan	Line of Credit	Total
Short-term:			
June 30, 2014	\$ 62,500	\$ 99,990	\$ 162,490
Long-term:			
June 30, 2015	<u>62,500</u>	<u>-</u>	<u>62,500</u>
Total notes payable	<u>\$ 125,000</u>	<u>\$ 99,990</u>	<u>\$ 224,990</u>

Furthermore, AEALAS entered into a number of short-term promissory notes with various parties, including related parties (see Note 14). As of June 30, 2013, AEALAS has outstanding promissory notes payable balance of \$200,000. These promissory notes do not have stated interest rates; therefore, no interest was accrued for the fiscal year 2012-2013. At June 30, 2013, the loans in the amount \$142,500 were delinquent. The following is a summary of the principal amount of these loans from individuals:

Balance at July 1, 2012	Additions	Payments / Loans Forgiven	Balance at June 30, 2013
\$ 637,450	\$ 448,500	\$ (885,950)	\$ 200,000

The forgiven loan in the amount of \$25,000 was recognized as contribution revenue.

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 9: RETIREMENT PLANS

Qualified employees of AEALAS are covered under a multiple-employer defined benefit retirement plan maintained by the California State Teachers' Retirement System. In general, certificated employees are members of CalSTRS and classified employees, part-time, seasonal, temporary, and other employees who do not qualify for CalSTRS are contributing to social security.

California State Teachers' Retirement System (CalSTRS) – AEALAS contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et. seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the CalSTRS.

At June 30, 2013, there were approximately 1,659 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). At June 30, 2012, membership consisted of 862,192 total members. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service.

The State of California is a non-employer contributor to the Defined Benefit (DB) Program of the TRF. The Plan provides defined retirement benefits based on members' final compensation, age, and years of credited service. Additionally, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

Active plan members are required, by state statute, to contribute 8.0% of their salary while AEALAS is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25% of annual payroll.

AEALAS' contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were equal to the required contributions at statutory rates.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 9: RETIREMENT PLANS (Cont'd.)

The contribution amounts were:

Years Ended June 30	STRS Required Contribution	STRS Percent Contributed
2013	\$ 182,150	100%
2012	154,094	100%
2011	116,771	100%

AEALAS' contributions to STRS do not represent more than 5 percent of the total contributions made to the plan by all contributing employers. The plan does not impose surcharges on member contributions.

Beginning July 1, 2003, the State's contribution to the system is 2.017% of the previous calendar year's teachers' payroll. Subsequent to achieving a fully funded System, the State expects to contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs.

Over all, about 60 percent of retirement benefits are from investment returns. The projected earnings over the last decade were significantly lower than the expected long-term actuarial assumptions of 7.5 percent. The funding gap, the difference between assets' value and the value of its obligations, is estimated to be \$70.5 billion, as per June 30, 2012 actuarial valuation. Although investment earnings for the fiscal year ended June 30, is approximately 13.8 percent above the actuarial assumed rate of 7.5 percent, CalSTRS is not expected to bridge the funding gap unless the contribution rates are increased. The rate cannot be changed by the governing board; only the Legislature and the Governor have the authority to do so since the percentages are set in statute.

To make progress towards its funding target, CalSTRS has to increase its revenue significantly. It is estimated that the DB Program assets are sufficient to make benefit payments through 2043.

The following is the funded status of the DF Program within the STRP (State Teachers' Retirement Plan) as of June 30, 2012, the most recent actuarial valuation date, is as follows:

ALBERT EINSTEIN ACADEMY FOR LETTERS, ARTS AND SCIENCES

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 9: RETIREMENT PLANS (Cont'd.)

(dollars in millions)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
Defined Benefit Program	\$ 144,232	\$ 214,765	\$ 70,533	67%	26,404	267%

The Funded Status of a retirement plan is equal to the difference between its Actuarial Value of Assets and its Actuarial Obligation. The Funded Ratio is equal to the Actuarial Value of Assets divided by the Actuarial Obligation. The following information was available from the STRS actuarial valuations as of June 30, 2012 (June 30, 2013 report is not yet available):

(dollars in millions)	6/30/2012 Valuation	6/30/2011 Valuation
Actuarial Obligation	\$ 215,189	\$ 208,405
Actuarial Value of Assets	144,232	143,930
Unfunded Actuarial Obligation	\$ 70,957	\$ 64,475
Funded Ratio	67.00%	69.10%

On its efforts to increase the funding ratio, the State Legislature passed Resolution - Chapter 123, Statutes of 2012, Senate Concurrent Resolution 105 (Negrete McLeod) - that intends to enact legislation to address the long-term funding needs of the DB Program in the 2013-2014 Regular Session. On February 14, 2013, CalSTRS submitted its report of possible funding strategies to the Legislature.

Furthermore, The California Public Employee's Pension Reform Act of 2013 (PEPRA), signed by Governor Brown on September 12, 2013 provides significant changes to California public pension plans. PEPRA changed the benefit formula to requiring new members to work longer years or receive a reduced service retirement benefit.

NOTE 10: CONTINGENCIES

AEALAS has received funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material. As of financial statement date, AEALAS has a pending audit with the Los Angeles County Office of Education.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

**NOTE 11: CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
CHARTER SCHOOL REVENUE BONDS**

On November 21, 2012, California Statewide Communities Development Authority issued California Statewide Communities Development Authority Charter School Revenue Bonds (Albert Einstein Academy for Letters, Arts & Sciences Project) Series 2012A (Series 2012A Bonds) in the principal amount of \$5,845,000 and Taxable Series 2012B (Series 2012B Bonds) in the principal amount of \$550,000 and loaned the proceeds of the bonds to AEALAS as per loan agreement dated November 1, 2012. The funds were to finance acquisition and renovation costs of the AEA, Santa Clarita facility, repay existing loans, and cover bond issuance costs. Cost of issuance, including legal services, printing, underwriting discount, and other professional fees were \$414,376.

Series 2012A Bonds in the principal amount of \$2,385,000 require interest of 6.000 percent and are due on November 1, 2032; Series 2012A Bonds in the principal amount of \$3,460,000 requiring an interest rate of 6.250 percent are due on November 1, 2042.

Series 2012B in the principal amount of \$550,000 require 7.750 percent interest and are due on November 1, 2020.

All bonds require bi-annual interest payments on May 1 and November 1 each year, starting May 1, 2013.

Series 2012A Bonds maturing November 1, 2032 and November 1, 2042 are subject to redemption prior to their stated maturity – mandatory sinking fund redemption starting November 1, 2020. Series 2012B Bonds' mandatory sinking fund redemption starts on November 1, 2016.

As per terms of the bond, AEALAS opened four bank accounts at Wells Fargo, the bond trustee, for servicing bonds' financial requirements. The bond trustee uses the designated accounts to deposit funds collected from AEALAS on a regular basis to meet all Bonds' financial obligations. The Bond trustee makes sure that all bond requirements are met.

The bonds are traded on the public market and its value has not changed since the bonds were issued.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

**NOTE 11: CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
CHARTER SCHOOL REVENUE BONDS (Cont'd.)**

The following is the schedule of bond requirements for the next five years and thereafter:

Fiscal Year	Principal	Interest	Total
2013-2014	\$ -	\$ 401,975	\$ 401,975
2014-2015	-	401,975	401,975
2015-2016	66,667	401,975	468,642
2016-2017	103,333	396,808	500,141
2017-2018	111,667	388,800	500,467
Thereafter	6,113,333	5,784,421	11,897,754
	<u>\$ 6,395,000</u>	<u>\$ 7,775,954</u>	<u>\$ 14,170,954</u>

During the fiscal year 2012-2013, AEALAS has paid \$178,656 interest on these bonds and accrued additional \$100,494 with the due date of November 1, 2013.

At June 30, 2013, AEALAS has met the Debt Service Coverage Ratio but has not met the following loan covenants:

- Days Cash on Hand of at least 30 days
 - This is due to timing issue and state deferrals.
- Limitation on Additional Indebtedness, required to have less than 10 percent of gross revenue – AEALAS has 14.31 percent
 - Because of deferrals, AEALAS needs to borrow funds for cash flow purposes

Additionally during the year, AEALAS had financial transactions with the AEALAS Foundation, an affiliate (see Note 14 for related party transactions), including borrowing on behalf of the Foundation and provided loans to the Foundation with no interest bearing notes as per the original notes receivable documents. These actions are in violation of the loan covenant. AEALAS believes that the Foundation is part of the entity since it was formed as a supporting entity to AEALAS. The notes receivable between AEALAS and the AEALAS Foundation have been amended to reflect an annual interest rate of 4.5 percent. As a consequence of the amendments, all loans to the Foundation are properly documented and interest has been charged and accrued in these financial statements.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 12: COMMITMENTS

A. AEA Santa Clarita have the following commitments:

- i. Entered into an operating lease for a copier. This lease, signed on December 19, 2012, requires 60 monthly payments of \$325.
- ii. Entered into service agreement for elevator maintenance with ThyssenKrupp Elevator Corp starting August 1, 2012. AEALAS has to pay quarterly maintenance fee of \$675.

Future minimum payments for AEA Santa Clarita are:

Fiscal Year	Elevator		Total
	Copier	Maintenance	
2013-2014	3,900	2,700	6,600
2014-2015	3,900	2,700	6,600
2015-2016	3,900	2,700	6,600
2016-2017	3,900	2,700	6,600
2017-2018	1,950	2,700	4,650

B. AEALAS signed other contracts for the new charter schools (see Note 15) as follows:

- i. AEA Endeavour in San Diego has three facility leases. The first lease, signed on April 15, 2013 and amended on July 29, 2013, starts on July 1, 2013 to March 31, 2014 and requires a security deposit of \$8,000 and monthly payments of \$10,000. The second lease, starting on August 1, 2013 to June 30, 2014, requires a security deposit of \$8,650 and monthly lease payments of \$8,650. The third lease was signed by the Foundation starting January 1, 2014 to August 31, 2024. The lease requires a security deposit of \$41,667 and monthly payment of \$17,500 for the first year, then \$41,667 for the second year and increases every year to \$48,303 a month for the last eight months of the initial lease agreement.
- ii. AEA Santa Clarita, Elementary and Middle School, has a ten year lease signed on May 22, 2013. The lease requires a security deposit of \$56,288 and initial monthly lease payments of \$13,402, the monthly payments increase annually. This lease will commence in July 2014.
- iii. AEA Westlake has a ten year lease signed on May 13, 2013. The lease which ends on July 23, 2023, requires a security deposit of \$30,000 and monthly payments of \$10,000.

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 12: COMMITMENTS (Cont'd.)

The following is the schedule of lease commitment for the next five years:

2013-2014	\$ 337,150
2014-2015	698,646
2015-2016	785,928
2016-2017	866,310
2017-2018	954,894

NOTE 13: CONCENTRATION OF RISK

AEALAS maintains its cash balances in several financial institutions. The balances in these institutions at times exceeded the Federal Deposit Insurance Corporation insurance limit of \$250,000 per institution. At June 30, 2013, all AEALAS deposits were totally insured.

NOTE 14: RELATED PARTY

- A. Foundation – The AEALAS Foundation (the Foundation), a non-profit corporation under the Internal Revenue Code 501(c)(3), was established as a supporting organization. The Foundation has been handling the process of opening other school locations under different charters.

During the fiscal year ending June 30, 2013, the Foundation processed several additional charter petitions under AEALAS, three of them opened their doors beginning fiscal year 2013-2014 (See Note 15 for Subsequent Event). The Foundation borrowed funds from AEALAS to finance the process of starting new school locations. The Foundation signed notes payable, for each loan taken from AEALAS. The notes were amended on December 13, 2013 to include annual interest rate of 4.50 percent. Total balance due from the Foundation at June 30, 2013 is \$457,481, including accrued interest of \$1,394. The loans are due at June 30, 2014.

- B. Short-Term Loans – Some of the short-term borrowings to cover the cash flow problem caused by state deferrals are provided by related parties including AEALAS' founder, board members, AEALAS administrators, family and friends of these individuals, and parents of the students (see Note 8). No interest was paid or accrued for the loans taken during the year; however, there was a balance of \$6,750 accrued from prior year's loans that is still unpaid and reported on accounts payable (see Note 7).

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NOTES TO THESE AUDITED FINANCIAL STATEMENTS

June 30, 2013

NOTE 15: SUBSEQUENT EVENT

A. In addition to the Albert Einstein Academy (AEA) Santa Clarita that houses Grades 7 through 12, AEALAS has the following three schools starting operation for fiscal year 2013-2014:

1. AEA Santa Clarita, Elementary and Middle School
 - Approved by the Acton-Agua Dulce School District in May 2013 for Grades K to 6
 - Located in Acton and Agua Dulce, California
2. AEA Endeavour
 - Approved by the Board of Trustees of Alpine Union School District on November 14, 2012 for Grades K-12,
 - Located in San Diego, California
3. AEA Westlake – Grade 7 to 12, located in Westlake, Ohio.
 - Approved by the Northern Central Ohio Education Service Center in April 2013 for Grades 7 to 12
 - Located in Westlake, Ohio

Furthermore, AEALAS has the following charter schools that have already been approved but haven't started yet as of the date of these financial statements:

1. AEA Ventura County
 - Approved by the Ventura County Office of Education in February 2013 for Grades 6 to 12
 - Located in Moorpark, California
2. AEA Broward County
 - Approved by Broward County, Florida in September 2013 for Grades K to 5
 - Located in Broward County, Florida



Albert Einstein Academy for Letters, Arts & Sciences

Organizational Charts of Reporting Lines of Authority

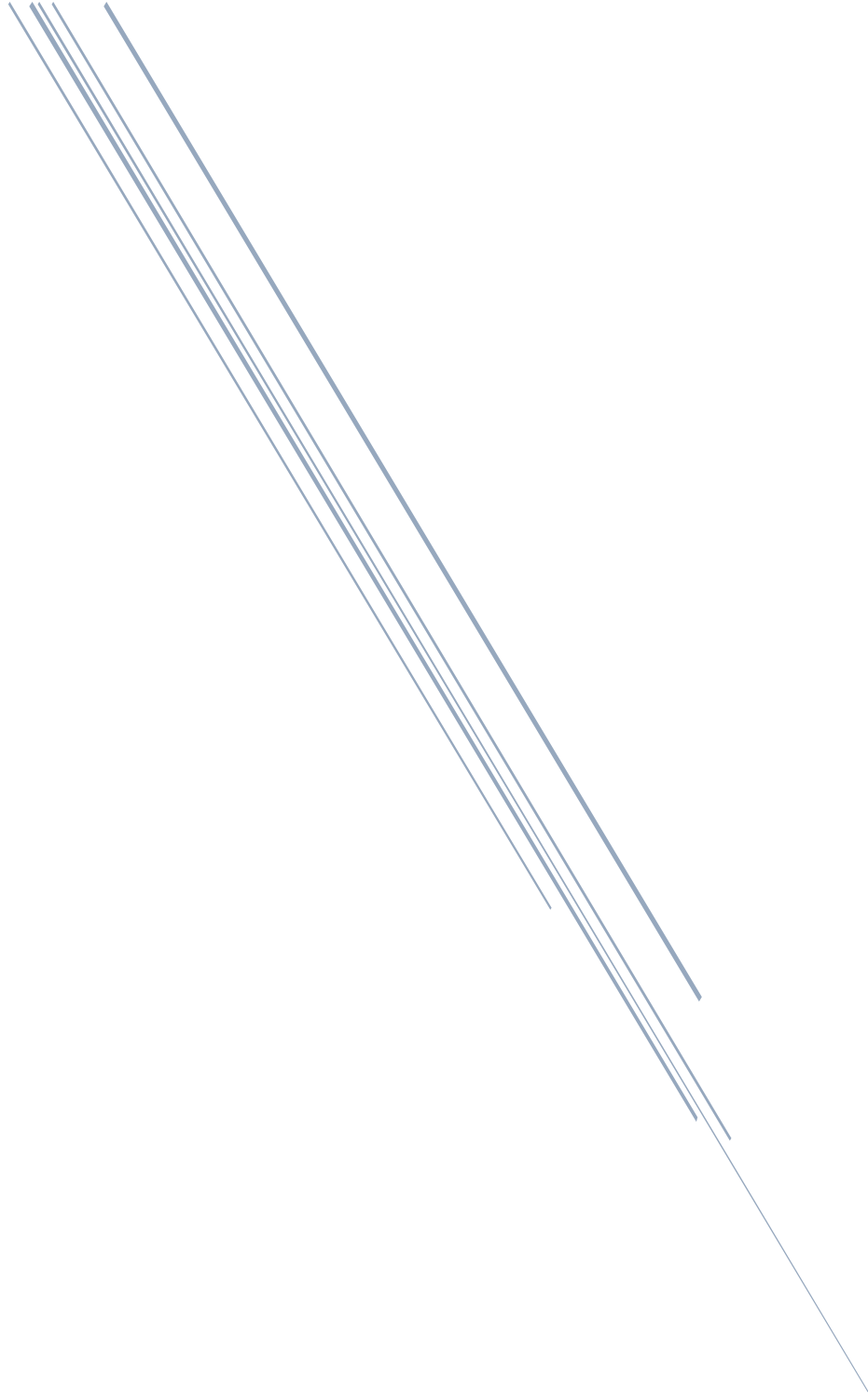
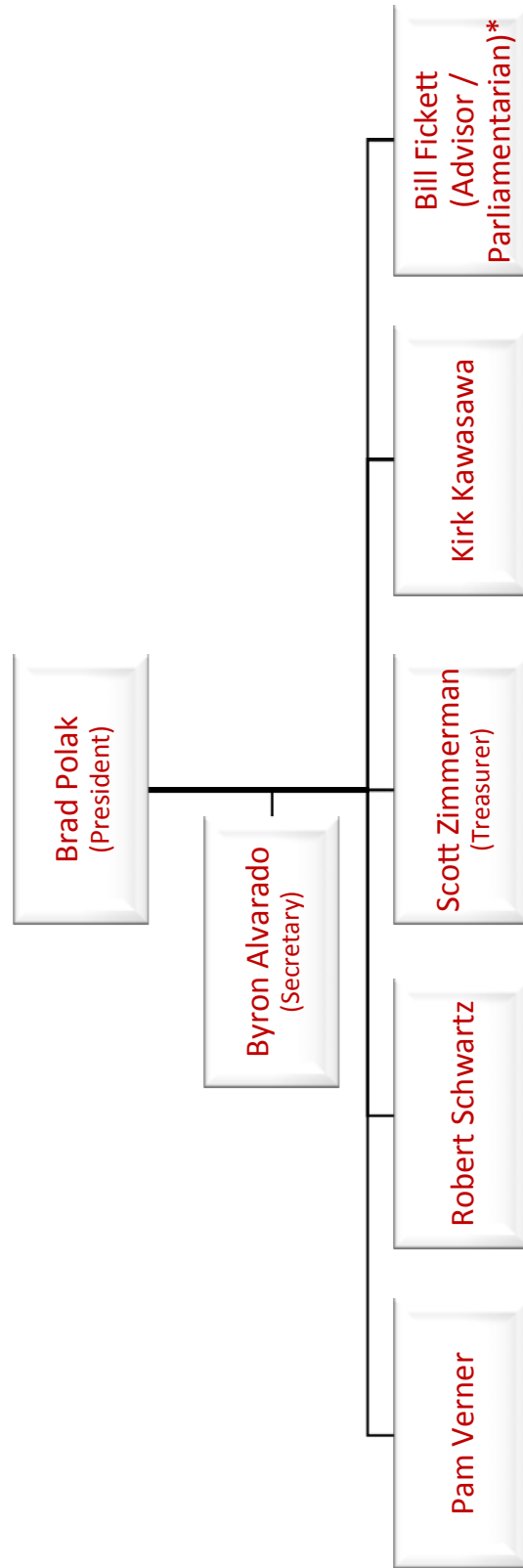


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2. Charter Management Organization (CMO)
3. Chief Academic Officer (CAO)
4. Chief Executive Officer (CEO)
5. Chief Financial Officer (CFO)
6. AEALAS Foundation – Board of Directors

 Albert Einstein Academy for Letters, Arts & Sciences
 AEALAS Board of Directors

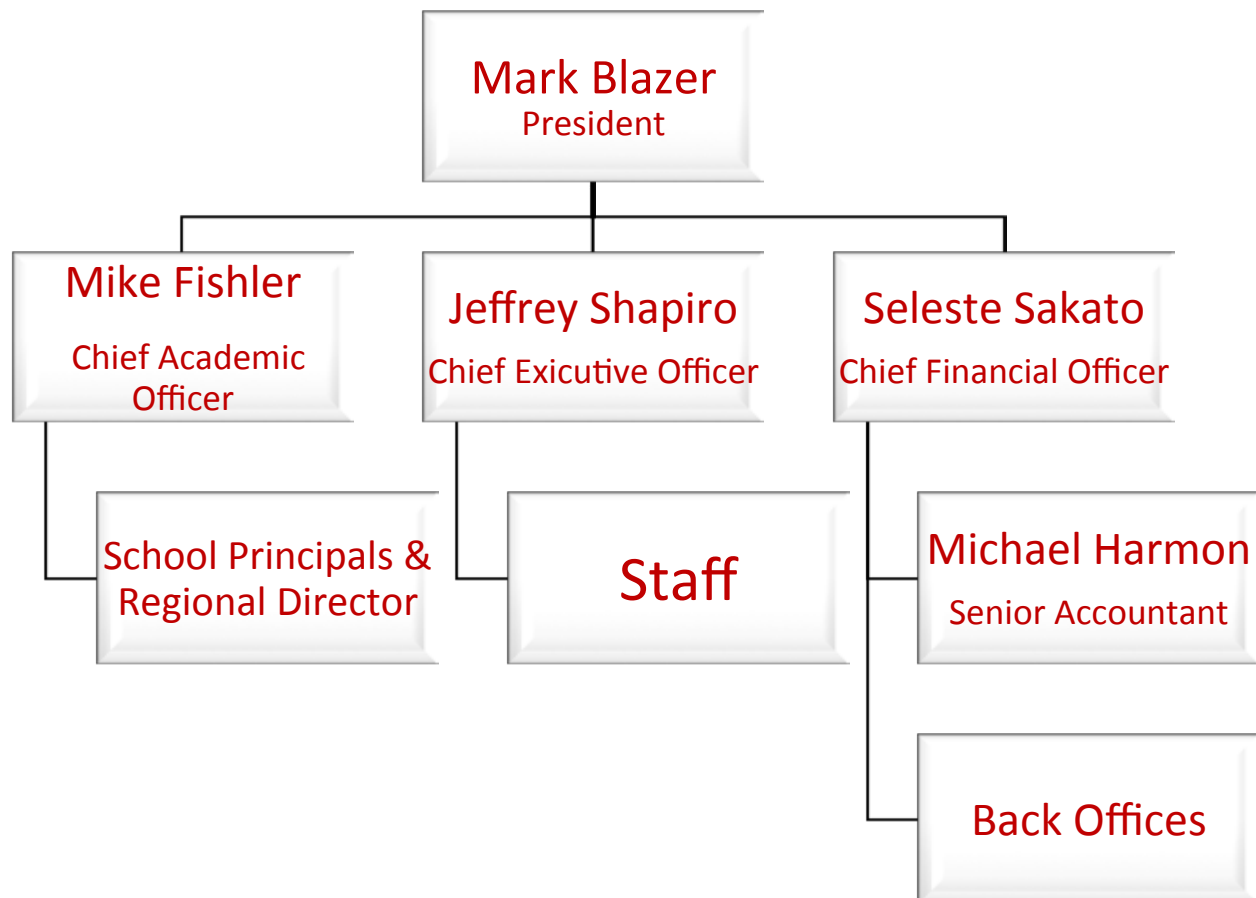


*Not a Board Member



Albert Einstein Academy for Letters, Arts & Sciences

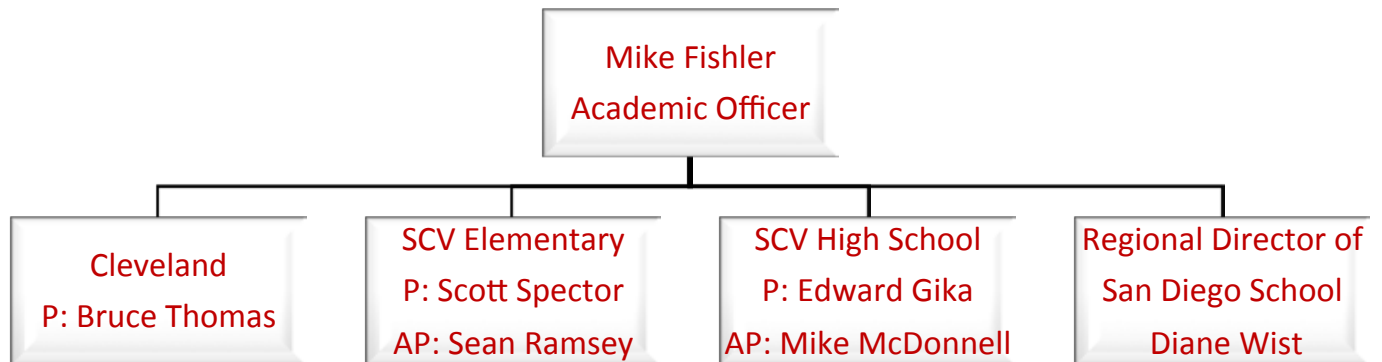
Charter Management Organization (CMO)





Albert Einstein Academy for Letters, Arts & Sciences

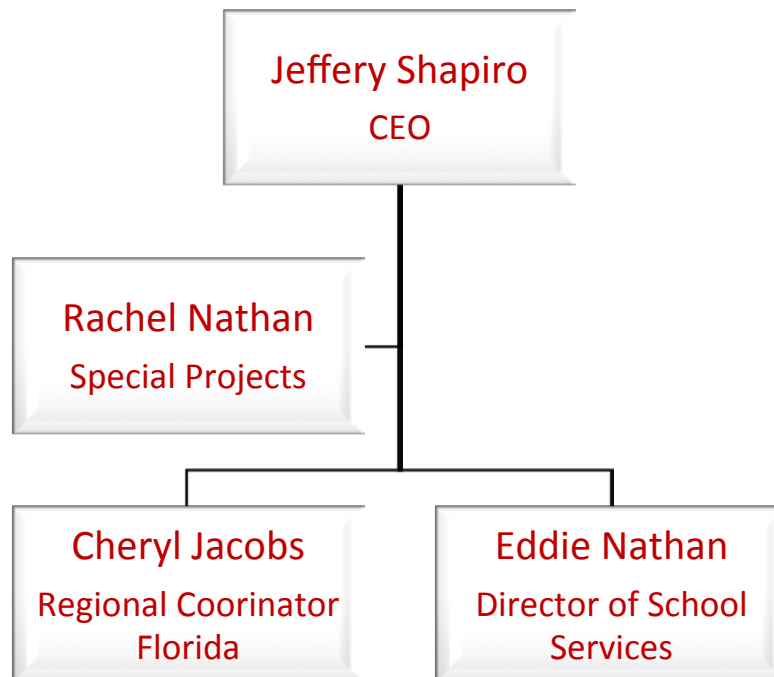
Chief Academic Officer





Albert Einstein Academy for Letters, Arts & Sciences

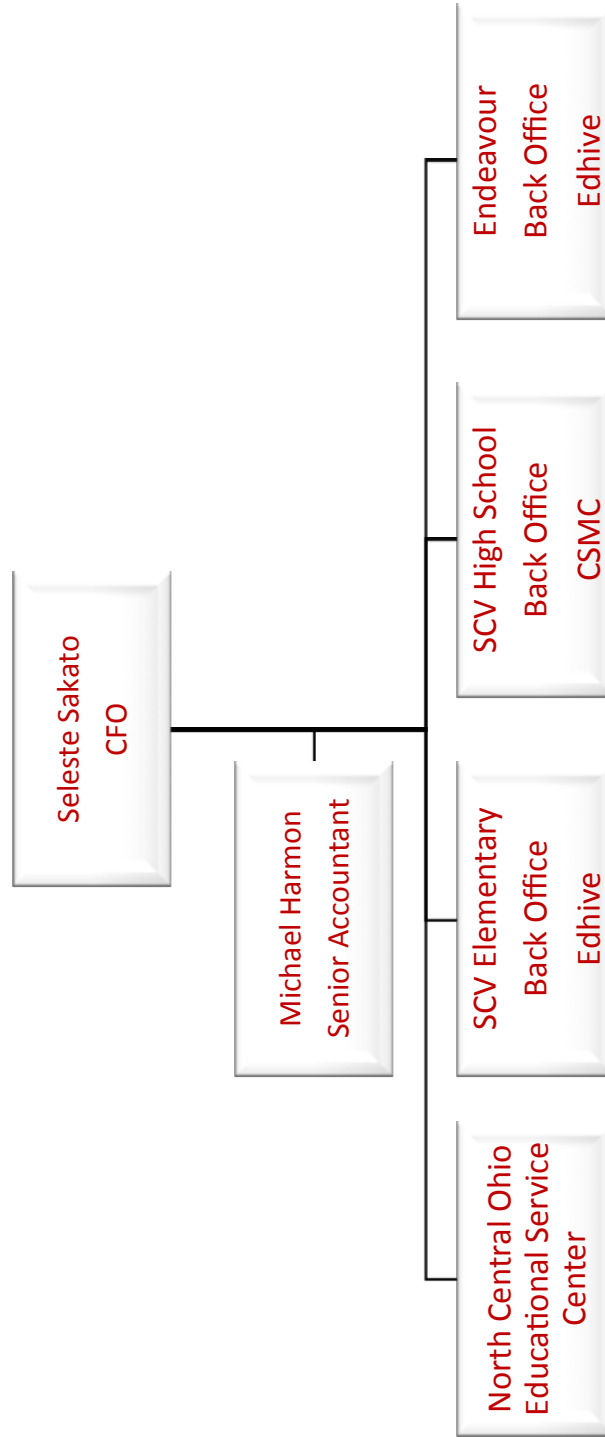
Chief Executive Officer





Albert Einstein Academy for Letters, Arts & Sciences

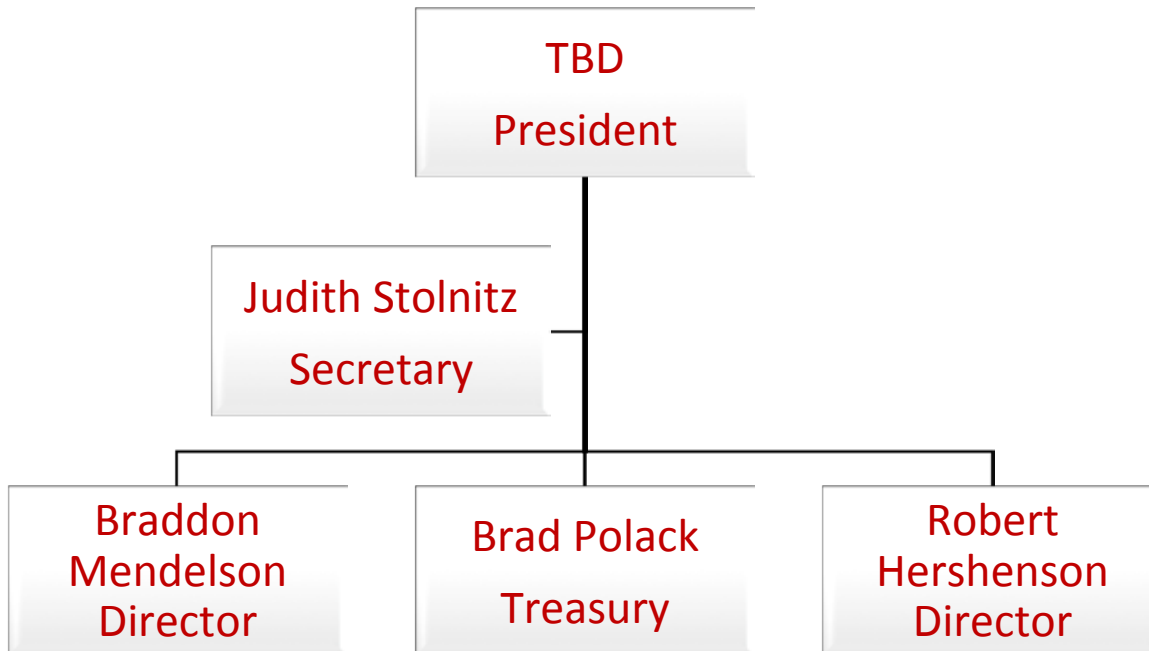
Chief Financial Officer





Albert Einstein Academy for Letters, Arts & Sciences

AEALAS Foundation Board of Directors





Albert Einstein Academy for Letters, Arts & Sciences

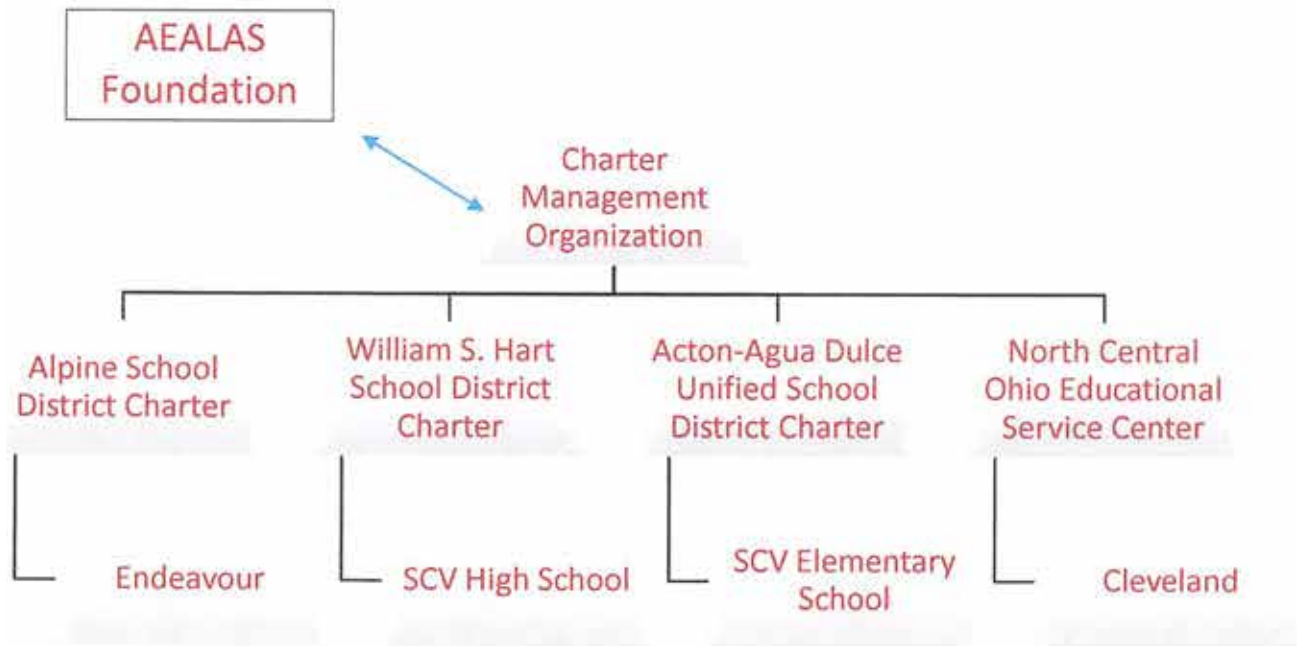
Organizational Chart Identifying Charter School Relationships





Albert Einstein Academy for Letters, Arts & Sciences

Identifying Charter School Relationships





CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
November 20, 2013**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Los Angeles County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. Pursuant to the provisions of Education Code Section 1241.5 (b) and (c), a county superintendent of schools may review or audit the expenditures and internal controls of any school district or charter school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The Los Angeles County Office of Education has requested that FCMAT assign professionals to conduct an Assembly Bill (AB) 139 Extraordinary Audit. Pursuant to Education Code Section 1241.5 (b),(c), the superintendent of the Los Angeles County Office of Education has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Albert Einstein Academy for Letters, Arts and Sciences (AEALAS) Charter School (7-12). The charter school was originally authorized by the William S. Hart Union High School District. AEALAS, Inc. also operates charter schools and home school/independent study programs under a single governing board and centralized management for financial reporting of the following:

1. Acton Agua Dulce Unified School District (K-12), Los Angeles County
2. Alpine Union School District (K-12), San Diego County
3. Thousand Oaks Middle and High School (6-12), Ventura County Board of Education

4. Saugus Union School District (K-6), Los Angeles County
5. Westlake Ohio (7-12) under a charter granted by the Ohio State Department of Education
6. Broward County, Florida (14-15 FY)

In addition to the authority granted under Education Code sections 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the charter school based on written complaints by parents or other information that justifies the review. Allegations have been received regarding the charter school comingling funds and assets, potential conflict of interest issues based on Government Code Section 1090, and violations of Education Code Section 49010 and of the California Constitution, Article IX, Section 5, prohibiting charging student fees, charges or deposits for curricular, extracurricular, credit or noncredit activities that are part of the charter school's educational program.

The primary focus of this review is to provide the county office with reasonable assurances, based on the testing performed, that the AEALAS charter school has adequate management and internal controls to report and monitor financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud issues such as fictitious employees or vendors, or misappropriation of assets including cash, may be detected. Specific review objectives will include evaluation of policies, procedures, internal controls and transactions performed by the charter school.

The team will sample test data from the current and one prior fiscal year to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on sample selections; it will not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance regarding the accuracy of the charter school's financial transactions and activity to accomplish the following:

- Prevent internal controls from being overridden by management.
- Ensure ongoing state and federal compliance.
- Provide assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of the proper internal control expectations.

1. The team will evaluate the charter school's internal control structure, policies and procedures to test transactions and reporting processes to determine if the charter school has adequate procedures to safeguard assets, including physical objects, charter school data and intellectual property.
2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and determine whether signature authority is delegated only to authorized employees.
4. Determine whether proper segregation of duties exists.
 - a. Determine if the charter school has protective measures for safeguarding assets, processes and data.
5. Evaluate policies and procedures:
 - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.
 - b. Review document and records retention procedures to determine whether the charter school provides reasonable assurance that asset records are safeguarded, and transactions are correctly recorded.
6. Assess reporting processes:
 - a. Evaluate monitoring procedures and verify that controls are operating properly.
 - b. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds. Determine if the organizational charts show lines of authority.
 - c. Evaluate whether clearly established lines of authority and responsibility exist within and between the charter schools for proper review and reporting purposes.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the charter school to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the charter office and at school sites if necessary; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the COE of material issues as the review is performed.

4. Draft Reports – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE’s administration for review and comment on a schedule determined by the team.
5. Final Report - Electronic copies of the final report will be delivered to the COE and/or charter school following completion of the review. Printed copies are available from the FCMAT office upon request.
6. Follow-Up Support – If requested, the team will meet with the COE and/or charter school to discuss the findings and recommendations of the report.

3. **PROJECT PERSONNEL**

The study team will be supervised by Anthony L. Bridges, CFE, CICA, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- | | |
|---------------------------------------|--------------------------------------|
| A. Julie Auvil, CPA, CGMA | FCMAT Fiscal Intervention Specialist |
| B. Debi Deal, CFE, CICA | FCMAT Fiscal Intervention Specialist |
| C. Marisa Ploog, CPA, CFE, CICA, CGMA | FCMAT Fiscal Intervention Specialist |
| D. To be determined | FCMAT Consultant |
| E. To be determined | FCMAT Consultant |

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to Education Code (EC) 42127.8 (d) (1) shall be:

- A. \$800 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.
- B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be \$40,000.

- C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent.

5. **RESPONSIBILITIES OF THE COE AND/OR CHARTER SCHOOL**

- A. The charter school will provide office and conference room space during on-site reviews.
- B. The charter school will provide the following if requested:
 - 1. A map of the local area
 - 2. Existing policies, regulations and prior reports addressing the study request
 - 3. Current or proposed organizational charts
 - 4. Current and two prior years' audit reports
 - 5. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the charter school and sent to FCMAT in an electronic format.
 - 6. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository to which the charter school shall upload all requested documents.
- C. The COE and/or charter school's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The charter school shall take appropriate steps to comply with EC 45125.1(c).

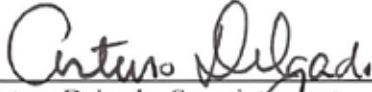
6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study:

Orientation:	December/January
Staff Interviews:	December/January
Exit Interviews:	December/January
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined

7. CONTACT PERSON

Contact person: Alex Cherniss, Assistant Superintendent, Business
Telephone: (562) 922-6124
FAX: (562) 922-6678
E-mail Address: Cherniss_alex@lacoe.edu



Arturo Delgado, Superintendent
Los Angeles County Office of Education
12-4-13

Date



Anthony L. Bridges, CFE, CICA
Deputy Executive Officer
Fiscal Crisis & Management Assistance Team
November 20, 2013

Date