



Hosaka, Nagel & Company

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

**NOVA MERIDIAN ACADEMY
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2009**

NOVA MERIDIAN ACADEMY
INTRODUCTORY SECTION
JUNE 30, 2009

NOVA MERIDIAN ACADEMY
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JUNE 30, 2009

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NOVA MERIDIAN ACADEMY
FINANCIAL SECTION
JUNE 30, 2009



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Nova Meridian Academy
Colton, California

We have audited the accompanying statement of the financial position of Nova Meridian Academy, a Nonprofit Public Benefit Corporation, as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Nova Meridian Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nova Meridian Academy as of June 30, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2009, on our consideration of Nova Meridian Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and important for assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Nova Meridian Academy taken as a whole. The Supplementary Information listed in the Table of Contents is presented for the purposes of additional analysis and is not a required part of the financial statements of Nova Meridian Academy. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Hosaka, Nagel & Company

San Diego, California
November 1, 2009

**NOVA MERIDIAN ACADEMY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009**

ASSETS

Current Assets	
Cash	\$ 200,998
Accounts Receivable	179,601
Prepaid Expenses	15,228
Deposits	<u>9,322</u>
Total Current Assets	<u>405,149</u>
Fixed Assets	
Leasehold Improvements	50,084
Less: Accumulated Depreciation	<u>(19,963)</u>
Total Fixed Assets, Net of Accumulated Depreciation	<u>30,121</u>
TOTAL ASSETS	<u><u>\$ 435,270</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 28,298
Accounts Payable - Sponsoring District	8,443
Accounts Payable - Grantor Government	797
Accrued Expenses	2,614
Current Portion of Long-Term Liabilities	<u>50,000</u>
Total Current Liabilities	<u>90,152</u>
Long-Term Liabilities	
Charter School Revolving Loan, Net of Current Portion	<u>200,000</u>
Total Long-Term Liabilities	<u>200,000</u>
Total Liabilities	<u>290,152</u>
Net Assets	
Unrestricted	<u>145,118</u>
Total Net Assets	<u>145,118</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 435,270</u></u>

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

**NOVA MERIDIAN ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

UNRESTRICTED NET ASSETS

Support

Revenue Limit State Aid	\$ 631,889
Federal Revenue	198,970
Categorical Block Grant	48,619
State Lottery	9,395
School Facilities Grant	50,813
Other State Revenue	15,739
In Lieu of Property Taxes	37,078
Other Local Revenue	<u>16,656</u>
Total Support	<u>1,009,159</u>

Expenses

Program Services	
Education	825,158
Support Services	
Management and General	74,733
Fundraising	<u>1,861</u>
Total Expenses	<u>901,752</u>

Increase in Net Assets	107,407
Net Assets - Beginning	<u>37,711</u>
Net Assets - Ending	<u>\$ 145,118</u>

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

**NOVA MERIDIAN ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009**

	Program Services	Support Services			Total
	Education	Management and General	Fundraising	Total Support Services	
Compensation and Related Expenses					
Salaries - Certificated	\$ 272,599	\$ 11,786	\$ -	\$ 11,786	\$ 284,385
Salaries - Classified	58,730	14,682	-	14,682	73,412
Employee Benefits	61,553	6,839	-	6,839	68,392
Total Compensation and Related Expenses	392,882	33,307	-	33,307	426,189
Books and Supplies	99,619	6,448	-	6,448	106,067
Travel and Conferences	7,583	843	-	843	8,426
Dues and Memberships	1,545	-	-	-	1,545
Operation and Housekeeping Services	27,409	3,045	-	3,045	30,454
Rental, Leases, and Repairs	117,239	13,027	-	13,027	130,266
Depreciation and Amortization	10,017	-	-	-	10,017
Communications	6,959	773	-	773	7,732
Professional/Consulting Services and Operating Expenditures	161,905	17,290	1,861	19,151	181,056
TOTAL	\$ 825,158	\$ 74,733	\$ 1,861	\$ 76,594	\$ 901,752

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

**NOVA MERIDIAN ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

Cash Flows From Operating Activities	
Increase in Net Assets	\$ 107,407
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	10,017
(Increase) Decrease in Operating Assets:	
Accounts Receivable	(141,335)
Prepaid Expenses	(203)
Deposits	(9,322)
Other Current Assets	10,635
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	21,129
Accounts Payable - Sponsoring District	8,443
Accounts Payable - Grantor Government	797
Accrued Expenses	<u>(66,999)</u>
Net Cash (Used) From Operating Activities	<u>(59,431)</u>
Cash Flows From Financing Activities	
Proceeds from Charter School Revolving Loan	<u>250,000</u>
Net Cash Provided from Financing Activities	<u>250,000</u>
Net Increase in Cash	190,569
Cash - Beginning	<u>10,429</u>
Cash - Ending	<u><u>\$ 200,998</u></u>

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

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of accounting policies and other necessary disclosure of pertinent matters relating to financial position and results of operations of Nova Meridian Academy (the Organization). The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this report.

NOTE 1 - ORGANIZATION

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of Accounting
- B. Basis of Presentation
- C. Use of Estimates
- D. Fixed Assets
- E. Deferred Revenue

NOTE 3 - CASH

NOTE 4 - ACCOUNTS RECEIVABLE

NOTE 5 - FIXED ASSETS

NOTE 6 - LONG-TERM LIABILITIES

- A. Long-Term Liabilities Activity
- B. Charter School Revolving Loan

NOTE 7 - EARLY RETIREMENT INCENTIVE PROGRAM

NOTE 8 - ACCUMULATED VACATION AND SICK LEAVE

NOTE 9 - LEASES

- A. Operating Leases
- B. Capital Leases

NOTE 10 - POST-EMPLOYMENT BENEFITS

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

NOTE 12 - SUBSEQUENT EVENT

NOTE 13 - JOINT POWERS AGREEMENT

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE 1 - ORGANIZATION

The Organization was incorporated in the State of California on July 21, 2005, under the Nonprofit Public Benefit Corporation Law for public and charitable purposes. The Organization's charter school is located at 850 Via Lata in Colton, California. The mission of the Organization is to build a model 21st Century Academy and an academic culture of scholastic success through leadership, education, and technology. The Organization provides opportunities for all students to become successful self-motivated lifelong learners and leaders in education through mastery of literacy, critical thinking, and self-determination within a diverse society.

The Organization is a grade 9-12 charter school, serving grades 9 and 10, and was granted a charter under the sponsorship of the Colton Joint Unified School District, pursuant to the terms of the Charter Schools Act (the Act) of 1992, as amended. The Act authorizes the formation of charter schools for the purpose among others, of developing new, innovative, and more flexible ways of educating children within the public schools system. This charter, among other matters, calls for the Colton Joint Unified School District and the Organization to enter into a mutually agreeable memorandum of understanding, regarding the funding entitlements of the Organization, pursuant to Education Code Section 47612 and 47623.5, to define the operational and oversight arrangements, and to define and resolve other matters of mutual interest. The Organization receives its funding in the same way as do traditional public schools and is open to all students.

The Organization qualifies as a publicly supported tax exempt organization under Section 510(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The Organization has not engaged in any activity that would be subject to unrelated business income tax, therefore, there is no provision for income taxes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Organization maintains its financial records using the accrual method of accounting under which income is recognized when earned and expenses are recognized when the obligation is incurred.

B. Basis of Presentation

The Organization, in accordance with Statement of Financial Accounting Standards, SFAS 117, Financial Statements for Not-for-Profit Organizations, 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. As of June 30, 2009, the Organization does not have any temporarily restricted net assets or permanently restricted net assets. It is also required to present a statement of cash flows.

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Fixed Assets

Fixed Assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 3 to 5 years. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred. For additional information, see Note 5.

E. Deferred Revenue

Deferred Revenue represents federal and state contract funds received, but not expended. These funds must be expended in accordance with the provisions of the contract to which they apply or refund if not expended under the terms of the contract. At June 30, 2009, the Organization does not have Deferred Revenue.

NOTE 3 - CASH

Cash at June 30, 2009, consisted of the following:

Cash In Bank	<u>\$ 200,998</u>
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Cash balances held in banks and in revolving funds are insured up to \$250,000 by federal agencies. At June 30, 2009, the Organization had no uninsured funds.

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE 4 - ACCOUNTS RECEIVABLE

All of the Accounts Receivable are determined to be collectible; therefore, no provision for doubtful accounts has been established. The following are Accounts Receivable at June 30, 2009:

Revenue Limit State Aid	\$	130,482
Federal Revenue		9,780
Categorical Block Grant		9,557
State Lottery		5,254
Other State Revenue		5,707
In Lieu of Property Taxes		15,813
Other Local Revenue		<u>3,008</u>
TOTAL	\$	<u><u>179,601</u></u>

NOTE 5 - FIXED ASSETS

Fixed Assets activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Fixed Assets, Being Depreciated:				
Leasehold Improvements	\$ 50,084	\$ -	\$ -	\$ 50,084
Total Fixed Assets, Being Depreciated	<u>50,084</u>	<u>-</u>	<u>-</u>	<u>50,084</u>
Less Accumulated Depreciation for:				
Leasehold Improvements	(9,946)	(10,017)	-	(19,963)
Total Accumulated Depreciation	<u>(9,946)</u>	<u>(10,017)</u>	<u>-</u>	<u>(19,963)</u>
Total Fixed Assets, Being Depreciated, Net	<u>40,138</u>	<u>(10,017)</u>	<u>-</u>	<u>30,121</u>
Fixed Assets, Net of Depreciation	<u><u>\$ 40,138</u></u>	<u><u>\$ (10,017)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,121</u></u>

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE 6 - LONG-TERM LIABILITIES

A. Long-Term Liabilities Activity

Long-Term Liabilities include debt and other long-term liabilities. Changes in long-term liabilities for the year ended June 30, 2009, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Charter School					
Revolving Loan	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ 50,000
	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 50,000</u>

B. Charter School Revolving Loan

On July 7, 2008, the Organization took out a five year Charter School Revolving Loan in the principal amount of \$250,000 with interest at 2.79% per annum. The Loan matures on June 30, 2014 with annual principal payments of \$50,000 plus annual interest. Payments will be made by the State Controller's Office by deducting principal and interest payments from the Organization's monthly apportionment revenues. Required payments of principal on the long-term notes payable as of June 30, 2009, including maturities, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 50,000	\$ 11,038	\$ 61,038
2011	50,000	5,286	55,286
2012	50,000	3,891	53,891
2013	50,000	2,496	52,496
2014	50,000	1,101	51,101
	<u>\$ 250,000</u>	<u>\$ 23,812</u>	<u>\$ 273,812</u>

NOTE 7 - EARLY RETIREMENT INCENTIVE PROGRAM

For the year ended June 30, 2009, the Organization did not provide an early retirement incentive program.

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE 8 - ACCUMULATED VACATION AND SICK LEAVE

At June 30, 2009, the Statement of Financial Position does not reflect accrued vacation or sick leave. The Organization did not have either accrued vacation, sick leave, or the amounts were immaterial.

NOTE 9 - LEASES

A. Operating Leases

The Organization leases facilities under a lease arrangement for more than one year. The future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2010	\$ 1,273
Thereafter	<u>-</u>
TOTAL	<u><u>\$ 1,273</u></u>

The Organization will receive no sublease rental revenues nor pay any contingent rentals associated with this lease. For the year ended June 30, 2009, the lease expense was \$123,208.

B. Capital Leases

At June 30, 2009, the Organization was not obligated under any long-term capital lease arrangements.

NOTE 10- POST-EMPLOYMENT BENEFITS

For the year ended June 30, 2009, the Organization did not provide for any post-employment benefits.

**NOVA MERIDIAN ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under employer defined benefit pension plan maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

STRS

The Organization contributes to the State Teachers' Retirement Systems (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the Organization is required to contribute 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 2008-2009 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contribution to STRS for the fiscal year ending June 30, 2009 was \$23,909 and equals 100% of the required contribution for the year.

NOTE 12 - SUBSEQUENT EVENT

The Organization's Charter expired on June 30, 2009 and the Colton Joint Unified School District elected not to renew the Charter. The Organization's Charter School had ceased operations as of June 30, 2009.

NOTE 13 - JOINT POWERS AGREEMENT

The Organization entered into a Joint Powers Agreement (JPA) known as the "California Charter Schools Association Joint Powers Authority (CCSA-JPA)," a self insurance plan for workers' compensation, property/casualty, and school board liability insurance. The CCSA-JPA is governed by a board consisting of a representative from each member organization. The board controls the operation of the CCSA-JPA including selection of management and approval of operating budgets, independent of any influence by the number organizations beyond their representation on the board. Each member organization pays a premium commensurate with the level of coverage requested and share surpluses and deficits proportionate to their participation in the CCSA-JPA. The CCSA-JPA is a separate entity which is audited by an independent accounting firm.

NOVA MERIDIAN ACADEMY
SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2009

**NOVA MERIDIAN ACADEMY
ORGANIZATION
JUNE 30, 2009**

Nova Meridian Academy [#860] is a Grade 9-12 Charter School, serving grades 9 and 10, and was granted its charter by the Colton Joint Unified School District on August 8, 2006, pursuant to the terms of the Charter Schools Act of 1992, as amended.

The Board of Directors for the fiscal year ended June 30, 2009, was comprised of the following members:

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Michael Arroyo	President	1 Years - June 16, 2009
Gregory Pounds	Treasurer	1 Years - June 16, 2009
Lizeri Gurrero	Secretary	1 Years - June 16, 2009
Yolanda Contereras	Board Member	1 Years - June 16, 2009
Eddie Campa	Board Member	1 Years - June 16, 2009

Administration

<u>Name</u>	<u>Position</u>
Nyasha Williams	Executive Director
Shanelle Hunt	Business Manager

**NOVA MERIDIAN ACADEMY
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Resident</u>	<u>Non-Resident</u>	<u>Resident</u>	<u>Non-Resident</u>
High School:				
Grades 9 and 10	<u>71.25</u>	<u>29.94</u>	<u>70.09</u>	<u>29.59</u>
TOTAL HIGH SCHOOL	<u>71.25</u>	<u>29.94</u>	<u>70.09</u>	<u>29.59</u>

The Organization is 100% classroom based and generates no ADA from a full-time independent study program.

**NOVA MERIDIAN ACADEMY
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>2008-09 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 9	64,800	65,970	180	In Compliance
Grade 10	64,800	65,970	180	In Compliance

NOVA MERIDIAN ACADEMY
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2009



ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

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

Board of Directors
Nova Meridian Academy
Colton, California

We have audited the financial statements of the Nova Meridian Academy (the Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, Board of Directors, Audit/Finance Committee, federal awarding agencies and pass-through entities, where applicable, and is not intended to be and should not be used by anyone other than these specified parties.

Hosaka, Nagel & Company

San Diego, California
November 1, 2009



ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

MEMBER
CALIFORNIA SOCIETY OF
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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Nova Meridian Academy
Colton, California

We have audited the basic financial statements of the Nova Meridian Academy (the Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 1, 2009. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-2009*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Organization's management is responsible for the Organization's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Not Applicable
Option One Classes	3	Not Applicable
Option Two Classes	4	Not Applicable
District or Charter Schools With Only One School Serving K-3	4	Not Applicable

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
Page 2

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
After School Education and Safety Program		
General Requirements	4	Not Applicable
After School	4	Not Applicable
Before School	5	Not Applicable
Contemporaneous Records of Attendance, For		
Charter Schools	1	Yes
Mode of Instruction, For Charter Schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction, For Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	Yes

The term "Not Applicable" is used above to mean either that the Organization did not offer the program during the current fiscal year or that the program applies only to a different type of local education agency.

Based on our audit, we found that, for the items tested, Nova Meridian Academy complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Nova Meridian Academy had not complied with the state laws and regulations.

This report is intended solely for the information and use of the management, Board of Directors, Audit/Finance Committee, State Controller's Office, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hosaka, Nagel & Company

San Diego, California
 November 1, 2009

NOVA MERIDIAN ACADEMY
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2009

**NOVA MERIDIAN ACADEMY
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2009**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? N/A

One or more significant deficiencies identified that are not considered to be material weaknesses? N/A

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with section .510(a) or Circular A-133? N/A

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
N/A	None

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? N/A

**NOVA MERIDIAN ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

**2008-1 Code 1000 Attendance
Documentation for Average Daily Attendance (ADA)**

Condition: During our interim audit we found that the SECOND PERIOD, or P-2, was supported by Resident & Non-Resident ADA schedules showing summary calculations, by grade level, of ACTUAL DAYS and resulting ADA. The Resident & Non-Resident schedules were not clearly backed up by "Monthly Attendance Summary – By Grade." However, the back-ups to the "Monthly Attendance Summary – By Grade" DID NOT give clear support to the reported monthly ADA and Days Attended figures.

It Appears that the Academy's current ADA-data gathering software program is not able to generate monthly attendance reports, which are needed in ADA computation reported on P-1, P-2 & Annual reports. The Academy has since provided us with back-up, by grade level, to the main supporting papers.

Status: Recommendation Implemented

**2008-2 Code 3000 Internal Control
Inventory of Equipment & Other Capital Assets**

Condition: The Academy did not have such a detailed inventory record of its equipment and other capital assets.

Status: Recommendation Implemented

**2008-3 Code 3000 Internal Control
Documentation for Cash Receipts of Collections**

Conditions: The Academy's cash receipts system does not involve the issuance of receipts, manual or computerized, that are prenumbered. In addition, the Academy has not developed a written procedure that outlines how often bank deposits ought to be made. Also, checks received are not restrictively endorsed by the person opening the mail. Finally, because of limited staffing, cash receiving functions are handled mostly by one person.

Status: Recommendation Implemented

**2008-4 Code 3000 Internal Control
Purchase Orders (PO's) Issued After Purchase**

Condition: At least four purchase orders (out of twelve disbursements covered by PO's) were issued after the purchase invoice had come in.

Status: Recommendation Implemented

**NOVA MERIDIAN ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
JUNE 30, 2009**

**2008-5 Code 3000 Internal Control
Disbursements With Inadequate Supporting Papers**

Condition: The Academy was unable to provide sufficient support for three disbursement items: Check #10096, dated Nov. 12, 2007, \$897; Check #10170, dated Feb. 2, 2008, \$1,225.70, and Check #10244, dated May 9, 2008, \$650.

Status: Recommendation Implemented

**2008-6 Code 3000 Internal Control
"Unaudited Actuals" Financial Report Not Supported by General Ledger**

Condition: The Academy's Unaudited Actuals financial report did not agree in several areas with the Academy's general ledger. In addition, the academy had an unlocated difference of \$4,010 between the Unaudited Actuals and the general ledger, reportedly caused by differences in estimating expenditures.

Status: Recommendation Implemented

**2008-7 Code 6000 Miscellaneous
Board of Directors Vote Taken By Phone**

Condition: At its December 4, 2006 regular meeting, the Academy's board failed to act on the matter of the loan agreement with Edtec Inc. for \$40,000. On December 12, 2006, a vote of the board was taken by phone. Board members gave their decision in a span two hours and twenty-one minutes. The issue passed by a 5-0 phone vote.

Status: Recommendation Implemented

**2008-8 Code 6000 Miscellaneous
Minutes of Closed Session Portion of Board of Directors**

Condition: The detailed minutes of the Academy's public board meetings also include detailed minutes of the *closed session* portion of the board's meeting

Status: Recommendation Implemented

**NOVA MERIDIAN ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
JUNE 30, 2009**

**2008-9 Code 6000 Miscellaneous
Filing of Conflict of Interest Form (FPPC Form 700)**

Condition: Article 5, Section 7 of the Academy's BYLAWS seems to indicate the Academy's intent to comply with the State's conflict-of-interest disclosure requirements. As of June 10, 2008, the Academy has not adopted a conflict-of-interest code. The Academy's Board members and CEO did not file FPPC Form 700, in April 2008, for the calendar year 2007. Certain directors may also need to do late filing of "assume office" and "leaving office" FPPC statements.

Status: Recommendation Implemented

**2008-10 Code 6000 Miscellaneous
Board Approval of All Donations or Contributions**

Condition: Although donations received by the Academy had been reported on the Academy's board meeting minutes, they had not been put on the board meeting agenda as a separate action item, and therefore, were not accepted, approved, or acknowledged by formal board vote.

Status: Recommendation Implemented

**2008-11 Code 6000 Miscellaneous
Capitalization Threshold**

Condition: The Academy, being a relatively new entity, has not established a capitalization policy.

Status: Recommendation Implemented

**2008-12 Code 6000 Miscellaneous
Coding of Expenditures and Revenues**

Condition: The Academy's current coding practice includes only two elements: OBJECT and RESOURCE, to the exclusion of FUNCTION code.

Status: Recommendation Implemented

NOVA MERIDIAN ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
JUNE 30, 2009

2008-13 Code 6000 Miscellaneous
Late Attendance and Closed Session Start Times

Condition: On at least three occasions, the recorded minutes mentioned the late arrival of a board member, but no exact time of arrival was shown on the minutes. Also, on at least three occasions, the recorded minutes mentioned the times when closed session ended, but no starting time was shown on the minutes.

Status: Recommendation Implemented

2008-14 Code 6000 Miscellaneous
Administrative Assistant Job Description

Condition: The current job description seems to exclude any duties related to average daily attendance (ADA) gathering and ADA-related summarization work.

Status: Recommendation Implemented