

NOVA MERIDIAN ACADEMY  
(A California Non-Profit Public Benefit Corporation)  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2008

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

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**JUNE 30, 2008**

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## Boceta & Associates

Certified Public Accountants  
600 Anton Blvd., 11<sup>th</sup> Floor  
Costa Mesa, CA 92626  
(714) 371-4042 - (714) 465-3154 Fax

Governing Board  
Nova Meridian Academy  
(A California Non-Profit Public Benefit Corporation)  
Colton, California

We have audited the accompanying statement of financial position, statement of activities and changes in net assets, and statement of cash flows of Nova Meridian Academy (the Academy) as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007/08*, issued by the California 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Nova Meridian Academy as of June 30, 2008, and the respective changes in 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 our report dated November 24, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the Academy's basic financial statements. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 24, 2008

## FINANCIAL SECTION

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2008**

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$	10,429
Accounts Receivable		38,266
Prepaid expenses		15,025
Other Current Assets		<u>10,635</u>
Total Current Assets		<u>74,355</u>

**Property and Improvement**

Improvement of Sites		50,084
Less: Accumulated depreciation		<u>(9,947)</u>
Total Property and Equipment		<u>40,137</u>

**Total Assets** \$ 114,492

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$	7,169
Payroll liabilities		20,194
Other liabilities		<u>49,419</u>
Total Current Liabilities		<u>76,782</u>

**Net Assets**

Unrestricted		<u>37,710</u>
Total Net Assets		<u>37,710</u>

**Total Liabilities and Net Assets** \$ 114,492

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

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**JUNE 30, 2008**

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**Revenues**

Revenue Limit Sources		
State Apportionment	\$	433,888
In-lieu Property Taxes		24,576
Federal Revenue		294,368
State Revenue		54,280
Local Revenue		6,476
<b>Total Revenues</b>		<u>813,588</u>

**Expenditures**

Program Services		
Teachers' Salaries		308,743
Classified Salaries		18,393
Certificated Employee Benefits		59,312
Occupancy		85,758
Student Supplies		49,513
Depreciation		6,963
Professional/Consulting Services and Operating Expenditures		50,673
Subtotal		<u>579,355</u>
Management and General		
Classified Salaries		21,447
Classified Employee Benefits		3,630
Occupancy		36,754
Depreciation		2,984
Professional/Consulting Services and Operating Expenditures		131,708
Subtotal		<u>196,523</u>
<b>Total Expenditures</b>		<u>775,878</u>

<b>Increase in Unrestricted Net Assets</b>		<b>37,710</b>
<b>Net Assets, Beginning of Year</b>		<u>-</u>
<b>Net Assets, End of Year</b>	<b>\$</b>	<u><u>37,710</u></u>

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

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**STATEMENT OF CASH FLOWS**  
**JUNE 30, 2008**

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CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 37,710
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	9,947
Increase in:	
Accounts receivable	(38,266)
Prepaid expenses	(15,025)
Security deposits	(10,635)
Accounts payable and accrued expenses	<u>76,782</u>
Net cash provided by operating activities	<u>60,513</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Property and improvement	<u>(50,084)</u>
Net cash used by investing activities	<u>(50,084)</u>
<b>Net decrease in cash</b>	<b>10,429</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b><u>-</u></b>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 10,429</u></b>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

Cash paid for interest during the year	<u>\$ 2,280</u>
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The accompanying notes are an integral part of these financial statements.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1. ORGANIZATION AND MISSION**

Nova Meridian Academy (the Academy) is a California non-profit public benefit corporation, organized and operated exclusively for educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. The Academy's charter high school petition was approved by Colton Joint Unified School District (the District) on August 3, 2006.

The District has granted the charter through June 30, 2009, subject to amendment and renewal. The charter may be revoked by the District only for material violations of the charter, failure to meet student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

As a California charter school, the Academy is exempt from most, but not all, State laws. The Academy must comply with all State laws that apply to all public agencies or are of general application.

The Academy opened for business in August 2007 and served sixty-one (61) students in grades nine and ten in 2007/08. The Academy's mission is to build a model 21<sup>st</sup> century academy and an academic culture of scholastic success through leadership, education, and technology. The Academy serves the communities and families identified in and around the city of Colton, San Bernardino County. The Academy's student body reflects the ethnic, cultural, and economic diversity of the district.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

Financial Statement Presentation

The Academy adopted statement of financial accounting standards (SFAS) no. 117, financial statements for not-for-profit organizations. Under the provisions of this statement, the Academy is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily unrestricted, and permanently restricted net assets. The Academy had no temporarily or permanently restricted net assets. In addition, the Academy is required to present a statement of cash flows.

Accounting Method – Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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The Academy uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred. To the extent practicable, the Academy complies with policies and procedures of the *California School Accounting Manual*.

Revenue Recognition

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

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions”. The Academy has no temporarily or permanently restricted assets as of June 30, 2008.

Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures has been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

Use of Estimates

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

Income Taxes

The Academy is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Academy considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments which potentially expose the Academy to concentrations of credit risk consist primarily of cash and cash equivalents. Cash and cash equivalents are placed with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Academy has not incurred losses related to cash and cash equivalents.

Inventories

The value of instructional and operational supplies on hand at year-end has not been reflected in the financial statements as they are expensed when incurred.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. At June 30, 2008, management had determined all accounts receivable are fully collectible. No allowance for doubtful accounts is required, and no allowance for bad debts has been established.

Property & Equipment

It is the Academy's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment, represented mostly by leasehold improvements to building, are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. 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. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over 5 years. As of June 30, 2008, depreciation expense was \$9,947.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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Allocation of General and Administrative Expenses

Expenses that can be identified with a specific project or supporting service are charged directly to the related program or supporting service. Certain expenses that are associated with the program or supporting service have been allocated among the program and supporting services benefited based on management's estimate.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2008, the Academy did not have any designations.

**NOTE 3. CASH AND INVESTMENTS**

Cash at June 30, 2008, is shown below:

Concentration of Risk:

Cash on hand and in banks	<u>\$10,429</u>
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Cash balances held in banks are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2008, the Academy had deposits well under FDIC insured limit. Management believes the Academy is not exposed to any significant risk related to cash.

**NOTE 4. POST-EMPLOYMENT BENEFITS AND EARLY RETIREMENT INCENTIVES**

For the year ended June 30, 2008, the Academy did not provide for any post-employment benefits or early benefits or early retirement incentives.

**NOTE 5. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2008, is composed of amounts due from:

Federal Government	\$	1,868
State Government		33,186
Others		<u>3,212</u>
<b>Total Receivables</b>	<b>\$</b>	<b><u><u>38,266</u></u></b>

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 6. CURRENT LIABILITIES**

The current liabilities at June 30, 2008, consist of the following:

Vendor payables	\$ 7,169
Salaries payable - Summer holdback	20,194
Other payroll liabilities - Due to STRS	49,419
<b>Total Current Liabilities</b>	<u><u>\$ 76,782</u></u>

**NOTE 7. PROPERTY AND EQUIPMENT**

A schedule of changes in property and equipment and accumulated depreciation for the year ended June 30, 2008, is as follows:

**SUMMARY OF CHANGES IN PROPERTY AND EQUIPMENT**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending Balance</u>
Leasehold improvements to buildings	\$ -	\$ 50,084	\$ -	\$ 50,084
<b>Total</b>	<u><u>\$ -</u></u>	<u><u>\$ 50,084</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 50,084</u></u>

**SUMMARY OF CHANGES IN ACCUMULATED DEPRECIATION**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending Balance</u>
Leasehold improvements to buildings	-	9,947	-	9,947
<b>Total</b>	<u><u>\$ -</u></u>	<u><u>\$ 9,947</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,947</u></u>

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 8. LEASES**

Operating Leases

The Academy leased a facility starting January 1, 2007. Future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Lease Payments</u>
2009	\$7,568
2010	<u>1,273</u>
<b>Total</b>	<u><u>\$8,841</u></u>

Capital Leases

The Academy is not obligated under any long-term capital lease arrangements.

**NOTE 9. EMPLOYEE RETIREMENT SYSTEMS**

Qualified certificated employees are covered under multiple-employer defined benefit pension plan maintained by California State Teachers' Retirement System (STRS). Classified employees are not yet covered by the California Public Employees' Retirement System (CalPERS) or by any other retirement plan.

Plan Description

The Academy contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee's 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 the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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Funding Policy

Active plan members are required to contribute 8% of their salary and the Academy 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 rates for fiscal year 2007/08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Academy's contributions to STRS for the fiscal years ending June 30, 2008 were \$ 25,091, and equal 100% of the required contributions for the year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The Academy has elected to use Social Security.

**NOTE 10. VACATION AND SICK LEAVE**

Vacation Policy

Full-time classified employees who are employed on a twelve-month employment contract can accrue five (5) days of paid vacation. Part-time classified employees and all certificated employees are not entitled to vacation benefits.

Sick Leave Policy

Employees who work thirty hours or more a week shall earn one (1) day paid sick leave on the first of each month of employment during the school year not to exceed 10 days. Sick leave benefits may not be converted into cash compensation and unused sick leave shall not be paid upon termination.

**NOTE 11. PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AGENCIES**

The Academy is part of self-insurance pools called Joint Powers Authorities (JPA). The Academy participates in California Charter Schools Association Joint Power Authority insurance program. CCSAJPA coverage includes workers' compensation, general liability, property, directors' and officers insurance, and student accident insurance.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 11. PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AGENCIES (CONTINUED)**

Each member entity pays premiums commensurate with the level of coverage or service requested, and shares surpluses and deficits proportionate to its participation in the JPA. Current financial information pertaining to the CCSA JPA listed is not available.

**NOTE 12. DEVELOPMENT STAGE**

During the period from December 2006 through June 2007, the Academy was in the development stage as an educational enterprise. During this development stage, the Academy engaged in transactions in preparation for the formal opening of its charter school in August 2007. The financial impact of these development stage transactions are immaterial and had been folded into the financial statements as of and for the year ended June 30, 2008.

**NOTE 13. DONATED SERVICES**

No amounts have been reflected in the accompanying financial statements for donated services in as much as no objective basis was available to measure the value of such services; however, some volunteers have donated their time to the Academy.

SUPPLEMENTARY INFORMATION

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**ORGANIZATION**  
**JUNE 30, 2008**

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The Academy's charter school petition was approved by Colton Joint Unified School Academy on August 3, 2006. The Academy started classroom instruction on August 27, 2007, serving sixty-one grade 9 and grade 10 students. In 2007/08, the Academy operated one school site in the city of Colton.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Gregory Pounds	President	June 30, 2009
Lizeri Guerrero	Secretary	June 30, 2009
Eddie Campa **	Treasurer	June 30, 2009
Michael Arroyo	Member	June 30, 2009
Yolanda Contreras	Member	June 30, 2009
Julia Nichols	CJUSD Representative (Non-voting Member)	

ADMINISTRATION

David Silas Tellyer\* - Principal

OFFICE ADDRESS

850 Via Lata, Suite 105  
Colton, CA 92324

\*Left position effective September 5, 2008; replaced by Nyasha Williams effective September 8, 2008

\*\*Resigned from the board effective July 21, 2008; started work as the Academy's part-time Office Manager/Business Director effective July 2, 2008; replaced on the Board by Elizabeth Beltran effective August 23, 2008

See accompanying notes to supplementary information.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**JUNE 30, 2008**

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	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>District Resident</u>	<u>Non- Resident</u>	<u>District Resident</u>	<u>Non- Resident</u>
Grades 9 through 10	<u>50.73</u>	<u>17.02</u>	<u>49.8</u>	<u>15.55</u>

See accompanying notes to supplementary information.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**SCHEDULE OF INSTRUCTIONAL TIME**  
**JUNE 30, 2008**

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<u>Grade Level</u>	<u>1982-83 Actual Minutes*</u>	<u>1986-87 Minutes Requirement</u>	<u>2007-08 Actual Minutes</u>	<u>Number of Days</u>		<u>Status</u>
				<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grade 9	N/A	64,800	66,325	180	N/A	Complied
Grade 10	N/A	64,800	66,325	180	N/A	Complied

\*Academy was not in existence in 1982/83

See accompanying notes to supplementary information.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**RECONCILIATION OF UNAUDITED ACTUALS VS. AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

Description	Beginning Balance	Revenues	Expenditures	Ending Balance
<b>Unaudited Actuals</b>	<u>\$ -</u>	<u>\$ 817,589</u>	<u>\$ 820,128</u>	<u>\$ (2,538)</u>
Audit Adjustments:				
a. Deferred Revenue - Arts & Music Block Grant		(4,001)		(4,001)
b. Expenses moved to leasehold improvements to building			(50,084)	50,084
c. Depreciation			9,947	(9,947)
d. Reclassify from Object 7999 to 58xx uncategorized			883	(883)
e. Expenditures moved to prepaid expense			(9,473)	9,473
f. Prior year prepaids charged to expenditures			467	(467)
g. Unallocated difference (client unable to pinpoint exact adjustment)			(4,010)	(4,010)
Net adjustment	<u>-</u>	<u>(4,001)</u>	<u>(52,270)</u>	<u>40,249</u>
<b>Audited Financial Statements</b>	<u>\$ -</u>	<u>\$ 813,588</u>	<u>\$ 767,857</u>	<u>\$ 37,710</u>

See accompanying notes to supplementary information.

**NOVA MERIDIAN ACADEMY  
(A California Non-Profit Public Benefit Corporation)**

**NOTES TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2008**

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**A. Organization**

This schedule provides information about the Academy's boundaries and schools operated, members of the governing board, and members of the administration.

**B. Schedule of Average Daily Attendance (ADA)**

Average daily attendance is a unit of State apportionment, equal to total approved days of attendance in the local educational agency (LEA) divided by the number of days the schools in the LEA were in session for at least the required minimum day (Education Code Section 46300). The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to the Academy. This schedule provides information regarding the attendance of students at various grade levels.

**C. Schedule of Instructional Time**

The Academy has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the Academy and whether the Academy complied with the provisions of Education Code Sections 46201 through 46206.

Academy must maintain instructional minutes at either the 1982/1983 actual minutes or the 1986/1987 requirement, whichever is greater, as required by Education Code Section 46201.

**D. Reconciliation of Unaudited Actuals vs. Audited Financial Statements**

This schedule shows the reconciliation between the Unaudited Actuals Financial Report with the Audited Financial Statements.

**OTHER INDEPENDENT AUDITOR'S REPORTS**

## **Boceta & Associates**

Certified Public Accountants  
600 Anton Blvd., 11<sup>th</sup> Floor  
Costa Mesa, CA 92626  
(714) 371-4042 - (714) 465-3154 Fax

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

Governing Board  
Nova Meridian Academy  
(A California Non-Profit public Benefit Corporation)  
Colton, California

We have audited the statement of financial position, statement of activities and changes in net assets, and statement of cash flows of Nova Meridian Academy (the Academy) as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 24, 2008. 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 Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Academy'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 Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the combination of deficiencies described in the accompanying schedule of findings and responses (2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2008-10, 2008-11, and 2008-12) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a 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 Academy's internal control.

Our consideration of internal control 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Governing Board, management, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Boetta & Associates". The signature is written in dark ink and is positioned above the date.

November 24, 2008

## Boceta & Associates

Certified Public Accountants  
600 Anton Blvd., 11<sup>th</sup> Floor  
Costa Mesa, CA 92626  
(714) 371-4042 - (714) 465-3154 Fax

### AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Nova Meridian Academy  
(A California Non-Profit public Benefit Corporation)  
Colton, California

We have audited the basic financial statements of the Nova Meridian Academy (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. 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 *2007/2008 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, issued by the California 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 Academy's management is responsible for the Academy's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Academy's compliance with the State laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Performed</u>
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Program	6	Not Applicable
Instructional Time (School Districts)	6	Not Applicable
Instructional Time (County Offices of Education)	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction General Requirements	7	Not Applicable

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Performed</u>
Instructional Materials General Requirements	12	Not Applicable
K-8 only	1	Not Applicable
Grades 9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive Program	4	Not Applicable
Gann Limit Calculation	1	Not Applicable
School Construction Funds:		
School District Bonds	3	Not Applicable
State School Facilities Funds	1	Not Applicable
Excess Sick Leave	3	Not Applicable
Notice of Right to Elect CA State Teachers Retirement System		
CALSTRS Membership	1	Not Applicable
Prop 20 Lottery Funds (Cardenas Textbook Act 2000)	2	Not Applicable
State Lottery Funds (1984 Act)	2	Not Applicable
Cal-SAFE Program	3	Not Applicable
School Accountability Report Card	3	Not Applicable
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction General Requirements	7	Not Applicable
Option One	3	Not Applicable
Option Two	4	Not Applicable
Districts or Charter Schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	4	Not Applicable
Before School	5	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Non-Classroom-Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	3	Yes

Based on our audit, we found that, for the items tested, the 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 Academy had not complied with the State laws and regulations.

This report is intended solely for the information and use of the Governing Board, management, State Controller's Office, Department of Finance, 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



November 24, 2008

## FINDINGS AND RESPONSES SECTION

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**SUMMARY OF AUDITORS' RESULTS**  
**JUNE 30, 2008**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u>  X  </u> No	
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	<u>  X  </u> Yes	_____ No	
Noncompliance material to financial statements noted?	_____ Yes	<u>  X  </u> No	

**FEDERAL AWARDS**

Type of auditors' report issued on compliance for major programs:	<u>N/A</u>		
Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u>  N/A  </u> No	
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	<u>  N/A  </u> No	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ Yes	<u>  N/A  </u> No	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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This organization did not have any major programs.

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?	_____ Yes	<u>  N/A  </u> No
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**STATE AWARDS**

Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>		
Internal control over state programs:			
Material weakness(es) identified?	_____ Yes	<u>  X  </u> No	
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	<u>  X  </u> No	

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-1 Code 10000 Attendance**  
**Documentation for Average Daily Attendance (ADA)**

**Specific Requirement:** Under numerous guides, publications, and advisories, the California State Department of Education and the State Controller's Office require that claims for funding based on ADA be supported by adequate and contemporaneous documentation. Non-compliance with the required documentation is subject to strict penalties, including funding disallowance.

**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, P2 & Annual reports. The Academy has since provided us with back-up, by grade level, to the main supporting papers.

**Questioned Costs:** N/A

**Context:** We examined the main supporting papers, and the back-ups to the main supporting papers, to the P-2 ADA claim.

**Effect:** The missing documentation at interim had the effect of putting into question the Academy's ADA claim from the State.

**Exact Cause:** Unknown.

**Recommendations:**

- Not only must each line on the P-1, P-2 & Annual Report of Attendance be clearly supported by MAIN back-ups (Resident & Non-Resident);
- The MAIN back-ups must be supported by Monthly attendance, by grade level, by residence – showing LINKAGE or CONNECTION between the P-1, P-2 & Annual ADA, MAIN back-ups, monthly summaries, & student's monthly attendance.
- The format or the way the data has been laid out on the Monthly Attendance should clearly support the Monthly Attendance Summary. If the summary is presented by residence, and by grade level, the Monthly Attendance – which is the data origination documentation - must be on the same format.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**Academy's Response:**

Implemented in part; to be fully implemented in 2008/09. The summary reports submitted by the Academy were missing vital information which did not allow the auditors to tie the summary report to P-2. The reason this information was missing was due to a formatting problem. When the reports were e-mailed to us by Edtec some of the formatting was lost. In short, when the reports were printed, the bottom section of the summary report was missing.

The Academy corrected the formatting problem and e-mailed it to Boceta and Associates back in June along with the backup.

In an e-mail from Boceta and Associates dated June 24, the auditors stated that the summaries are now clearly matching the P-2 report. However, the back up to the monthly summaries need to be reformatted to be a proper "back up to the backup." An e-mail was sent to Edtec about reformatting the backup to the monthly summary reports.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-2 Code 30000 Internal Control**  
**Inventory of Equipment & Other Capital Assets**

**Specific Requirement:** A good system of internal control requires the establishment of an inventory of equipment and other capital assets above a certain amount, a system for tracking and controlling property. Such an inventory record would include asset description in detail, I.D. number, cost, date of acquisition, location of use, and time and mode of disposal.

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

**Questioned Costs:** Not applicable.

**Context:** We discovered this condition through our internal control questionnaire and through inquiry and observation.

**Effect:** This condition represents a significant deficiency in internal control.

**Cause:** Unknown.

**Recommendation:** To improve internal control over equipment and other capital assets, the Academy should establish an inventory of equipment and other capital assets. The inventory record should then be updated and maintained, on an ongoing basis, by reflecting on the records asset additions and deletions as they occur. In addition, the Academy should do a physical count of such assets on a periodic basis, annually, at least, and the results of such a physical count should then be compared with the recorded inventory. Discrepancies between inventory and physical should be investigated; and inventory adjustments should be made where warranted. The recommended equipment and capital asset inventory should include even items such as equipment and furniture items with valuation below the capitalization threshold.

**Academy's Response:**

To be implemented. The Academy will conduct an inventory of all assets. Upon the completion of the inventory, a listing of all equipment and capital assets will be created with description in detail, I.D. number, cost, date of acquisition, location of use, and time and mode of disposal. The inventory list will be maintained on an ongoing basis.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-3 Code 30000 Internal Control**  
**Documentation for Cash Receipts or Collections**

**Specific Requirement:** A good internal control system requires that there be proper and systematic documentation for cash receipts and collections, among other areas.

**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.

**Questioned Costs:** Not applicable.

**Context:** Key Academy personnel filled out and completed an internal control questionnaire on cash receipts, among others, and during field work, we examined the actual documentation used for cash receipts or collections. We also discussed the cash receipts process with the Academy's administrative assistant.

**Effect:** The reported conditions represent significant deficiencies in internal control.

**Cause:** Unknown.

**Recommendations:** Checks and currency received should be logged in a manually kept receipt book -- example: three receipt numbers to a page, multiple (three) copies per receipt number, pre-printed, pre-numbered, numerically controlled – or emulated in a computerized system. A pre-numbered receipt, issued manually or by computer, should be generated for each instance where check or currency is collected or received, whether or not the payor asks for a receipt. Since all pre-numbered receipts must be accounted for, all originals of *voided* receipts should be kept and retained in the files. A written procedure should be established requiring actual bank deposits at least once a week. All checks are to be *restrictively endorsed* by the person opening the mail. (This protects the check if it's lost or stolen.) Bank reconciliations should be done monthly. The reconciliation should be reviewed by someone independent of the cash handling or recording functions. (This may be a challenge, because of limited staffing.) Responsibility over cash receipts should be spread over to a third individual (currently there are two people involved in the process).

**Academy's Response:**

Implemented, in part. The Academy has implemented a cash receipt system in which pre-numbered receipts are issued upon the receipt of cash or checks. Bursar type of activities are handled by the administrative assistant. The business manager reconciles the receipts and deposits the funds.

Bank reconciliations are performed on a monthly basis by Edtec.

The Academy will adopt a financial policy with the assistance of Edtec to improve internal controls. A sample financial policy has been submitted to the board for review and comment.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-4 Code 30000 Internal Control**  
**Purchase Orders (PO's) Issued After Purchase**

**Specific Requirement:** A good system of internal control requires that a purchase order be issued prior to actual purchase.

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

**Questioned Costs:** Not applicable.

**Context:** Thirty-three checks were chosen as samples for purposes of testing the Academy's controls over disbursements. Twenty-one of the thirty-three disbursements were not covered by PO's.

**Effect:** Issuance of a purchase order after an invoice had come in represents a significant deficiency in internal control.

**Cause:** Unknown.

**Recommendation:** Purchase orders should be issued prior to purchase.

**Academy's Response:**

To be implemented. The Academy has no formal purchase order policy. Currently, purchase orders are issued to vendors who are requiring it such as textbook vendors. Purchase orders are not issued for the regularly occurring expenses such as rent and utilities. The Academy will adopt a formal financial policy with the guidance of Edtec to provide guidelines for purchasing using a PO system.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-5 Code 30000 Internal Control**  
**Disbursements With Inadequate Supporting Papers**

**Specific Requirement:** A good system of internal control requires that all disbursements be backed up by proper documentation, such as invoices and other pertinent 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.

**Questioned Costs:** \$2,772.70

**Context:** Thirty-three checks were chosen as disbursement samples from the 2007/08 check register through June 2, 2008, for purposes of testing the Academy's controls over disbursements.

**Effect:** This condition indicates a significant deficiency in internal control.

**Cause:** Unknown.

**Recommendation:** In the future, all disbursements should be backed up by proper documentation, such as invoices, receipts, and other relevant supporting papers.

**Academy's Response:**

To be implemented. The Academy will research the items that were listed as not having adequate documentation. In the future, the Academy will work to ensure that disbursements are backed up by proper documentation, such as invoices, receipts, and other relevant supporting papers.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-6 Code 30000 Internal Control**  
**“Unaudited Actuals” Financial Report Not Supported by General Ledger**

**Specific Requirement:** “Unaudited Actuals,” the Academy’s official report to the State, should be in agreement with the 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.

**Questioned Costs:** None

**Context:** We compared the Academy’s Unaudited Actuals financial report with the Academy’s general ledger.

**Effect:** Needless audit adjustments had to be made.

**Cause:** The Academy submitted its Unaudited Actuals financial report to the State prior to its books having been closed first.

**Recommendation:** In the future, the Academy should ensure that its Unaudited Actuals financial report, due by September 15, is in agreement with its general ledger. The Academy should complete all year-end closing activities in July and August so that the proper closing of the books could take place by the end of August, to ensure that the general ledger is supportive of the Unaudited Actuals financial report, which is due by September 15. Before the books are formally closed, any unlocated difference should be investigated, cleared, and resolved.

**Academy’s Response:**

To be implemented. The Academy will work with Edtec, our business advisors, to implement this audit recommendation.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-7 Code 60000 Miscellaneous**  
**Board of Directors Vote Taken By Phone**

**Specific Requirement:** As a charter school, the Academy is subject to the Open Meetings Act (Brown Act), among others. Under the Brown Act, all governing board meetings must be fully open and accessible to the public. Governing boards must discuss, deliberate and act openly, with certain exceptions. A “meeting” is a majority of board members present at the same time and place to “hear, discuss or deliberate” business on the agenda. Only “face-to-face” meetings of a majority of board members are authorized meetings. A majority of board members may not use a telephone, a fax machine, email, a chat room, an intermediary or other devices to develop consensus, agreement, or a decision. “Polling” of board members by another board member, or by a staff member, is strictly prohibited by the Brown Act.

**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.

**Questioned Costs:** Not applicable.

**Context:** Since inception of the Academy’s board meetings, this December 12, 2006 polling of board members is the one and only instance of a board vote taken by phone.

**Effect:** This vote taken by phone could be a violation of the Brown Act.

**Cause:** Unknown.

**Recommendation:** This possible Brown Act violation should be “cured” by means of formal board action in a future board meeting. In the future, if a similar situation happens, the Academy administration has several options, including (a) holding a special meeting to get formal approval, or (b) proceeding ahead, with full notice to the board of the facts and circumstances, and then, at the earliest opportunity, presenting the issue to the board as an action item, not for approval, but for ratification.

**Academy’s Response:**

Implemented. At a regular board meeting on October 20, 2008, the December 12, 2006 vote by phone was ratified by the board.

Please note that the Academy has taken steps to help ensure that the board will be Brown Act compliant. In 2007, the Academy received formal board training on Brown Act which was conducted by Edtec.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-8 Code 60000 Miscellaneous**  
**Minutes of Closed Session Portion of Board of Directors**

**Specific Requirement:** Under the Brown Act, closed sessions are narrowly authorized for specific matters (personnel, student discipline, collective bargaining, pending litigation, real property, and security matters). The Brown Act requires that special disclosures have to be made by the board before and after holding a closed session.

**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.

**Questioned Costs:** Not applicable.

**Context:** The Academy's published board meeting agenda must include the special disclosures regarding the limited items allowed by State law to be discussed and/or acted upon in closed session, and the minutes of the public portion of each board meeting must include the special disclosures about the action or lack of action taken in closed session. However, to our knowledge, there is no Brown Act or other legal requirement that *closed session* minutes should be included in, or be part of, the minutes of the public portion of the Academy's board meetings.

**Effect:** Matters allowed by State law to be discussed in closed session are mostly confidential matters. Some of these matters could have legal implications and potentially might expose the Academy to liability or some other serious consequence if some details are disclosed, routinely or inadvertently, in published minutes.

**Cause:** Unknown.

**Recommendation:** The Academy should minimize, if not entirely eliminate, the potential for inadvertent disclosure of confidential information through published *closed session minutes*. As a prudent approach to record-keeping, detailed minutes of the closed session portion of the Academy's board meetings should be kept confidential, and therefore, excluded from the minutes of the public portion of the Academy's board meetings.

**Academy's Response:**

Implemented. Upon the recommendation of the auditors, henceforth, the Academy will not include minutes of the closed session with the regular minutes of the public session. Closed session minutes will be kept in a separate confidential file that will be locked in a secured file cabinet in the business office.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-9 Code 60000 Miscellaneous**  
**Filing of Conflict of Interest Form (FPPC Form 700)**

**Specific Requirement:** Although charter schools are exempted from most – but not all – State laws, the Academy, as a charter school, must comply with all State laws that apply to all public agencies or are of general application, such as Conflict of Interest Laws, among others (CAL-OSHA, Brown Act, Public Records Act). *Conflict of Interest* disclosures are accomplished by the filing of FPPC Form 700, Statement of Economic Interests, with the proper agency designated under the rules of the State’s Fair Political Practices Commission (FPPC).

Who must file, under FPPC rules? “Elected and appointed officials...listed in Government Code Section 87200; employees and appointed officials filing pursuant to a conflict-of-interest code...; members of newly created boards and commissions not yet covered under a conflict-of-interest code.” FPPC rules further say: “Most filers file within 30 days of assuming or leaving office or within 30 days of the effective date of a newly adopted or amended conflict-of-interest code.”

**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 had 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.

**Questioned Costs:** Not applicable.

**Context:** Auditing standards require that we develop a good understanding of the entity (the Academy) and the entity’s environment, including the legal requirements applicable to charter schools such as the Academy.

**Effect:** Non-filing of Statement of Economic Interest forms by the Academy directors and CEO, in April 2008, for the calendar year 2007, may constitute noncompliance with the State’s conflict of interest laws, despite the Academy not having adopted yet a conflict-of-interest code.

**Cause:** Unknown.

**Recommendation:** The Academy’s Board of Directors should adopt a conflict of interest policy requiring “regular annual statements from directors, officers, key employees to disclose existing and potential conflict of interest” as already contemplated in the Academy’s BYLAWS. In addition, the Academy should look into the necessity of filing late Statements of Economic Interests (annual, assuming office, leaving office, and initial statements). In the future, the Academy should endeavor to have their directors, officers and key employees filing timely conflict of interest disclosures.

**Academy’s Response:**

To be implemented. It is the consensus of the board of directors to complete Form 700 and adopt a conflict of interest policy per the August 22, 2008 special board meeting.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-10 Code 60000 Miscellaneous**  
**Board Approval of All Donations or Contributions**

**Specific Requirement:** Because of the “public” nature of the Academy as an entity, sound governance principles would dictate that donations or contributions of money or property to the Academy be accepted or acknowledged by way of a formal vote of approval by the Academy’s governing board.

**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.

**Questioned Costs:** Not applicable.

**Context:** In our review of the minutes of the Academy’s board meetings, we simply noted the manner in which donations or contributions are currently being handled and reported. There could be cases, however remote, in which the Academy’s board may justifiably decide that a potential donation may not be in the best interests of the Academy and must reject the donation or contribution offered. Furthermore, consideration of a donation or contribution is, prior to acceptance, an administrative issue. Upon acceptance, a donation or contribution becomes an internal control issue.

**Effect:** Without formal board approval of donations or contributions, there is no mechanism for the board to possibly reject a donation or contribution that may not be acceptable to the Academy.

**Cause:** Unknown.

**Recommendation:** Donations or contributions or whatever kind, with their pertinent details, should be presented as an *action* item on the Academy’s board meeting agenda, for approval, or for ratification, if the nature of the donation or contribution makes it practicable for the Academy administration to accept the donation or contribution even prior to board consideration of the matter.

**Academy’s Response:**

The Academy has not formally accepted donations in the past. Policies regarding the acceptance of donations will be drafted and submitted to the board for approval.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-11 Code 60000 Miscellaneous**  
**Capitalization Threshold**

**Specific Requirement:** A good accounting system should include a capitalization policy on capital assets, such as equipment, vehicles, buildings and improvements. The capitalization threshold is the per-unit cost at which a given asset item qualifies for capitalization. Capitalization thresholds may differ from one charter school to another, depending on materiality. Typically, the larger the charter school, the higher is its capitalization threshold.

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

**Questioned Costs:** Not applicable.

**Context:** We discovered this condition through observation and inquiry.

**Effect:** In the absence of a capitalization policy, there's no set guidance available as to whether or not an asset purchase ought to be capitalized (depreciated over time) or treated as expenditure in the fiscal year of acquisition.

**Cause:** Unknown.

**Recommendation:** The Academy should adopt a capitalization policy as soon as possible.

**Academy's Response:**

Implemented. The Academy approved a capitalization policy at the regular board meeting on June 16, 2008 as a result of the recommendation from the auditors.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-12 Code 60000 Miscellaneous**  
**Coding of Expenditures and Revenues**

**Specific Requirement:** The California School Accounting Manual, applicable to the K-12 environment, including charter schools, requires a 22-digit account code under the Standardized Account Code Structure (SACS) for each revenue or expenditure item. The 22-digit coding system under SACS would facilitate conversion of an entity's financial statements into a format that complies with the reporting requirements of Governmental Auditing Standards Board Statement No. 34 (GASB #34). The 22-digit code includes codes for FUND, OBJECT, RESOURCE, and FUNCTION, among others. The FUNCTION code is required, among others, to enable conversion of the SACS financial statements into a format required by GASB #34. The California Department of Education has advised that GASB #34 applies to charter schools.

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

**Questioned Costs:** Not applicable.

**Context:** We discovered this condition through observation and examination of the Academy's documents.

**Effect:** The Academy's financial statements may not be susceptible to conversion into the reporting format required by GASB #34.

**Cause:** Unknown.

**Recommendation:** The Academy should consult with Edtec to make sure that, after all is said and done, at year-end, Edtec is able to produce financial statements that are convertible to the reporting format required by GASB #34. While later conversion into FUNCTION format is acceptable, contemporaneous recordkeeping by object and by function should be the goal.

**Academy's Response:**

To be implemented. The Academy will work with its business advisors to allow conversion of expenditures by function.

**NOVA MERIDIAN ACADEMY**  
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**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-13 Code 60000 Miscellaneous**  
**Late Attendance and Closed Session Start Times**

**Specific Requirement:** Minutes of board meetings are important legal documents and should capture for the records, as accurately as possible, the salient points covered during the board's deliberations, the formal actions taken by the board, as well "significant points of departure" during each meeting.

**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.

**Questioned Costs:** Not applicable.

**Context:** We examined the Academy's minutes of meetings as we endeavored to understand better the Academy and its environment, a requirement of our auditing standards.

**Effect:** These missing elements, if captured, would give the readers a more complete picture of what transpired during the meeting.

**Cause:** Unknown.

**Recommendation:** In the future, when a board member joins after the meeting has been called to order, his/her time of arrival should be noted on the minutes. Also, both the starting and ending times of closed sessions should be noted on the minutes.

**Academy's Response:**

To be implemented. The Academy will provide in the future more detailed minutes that will better reflect the setting of the meeting and the times of late arrivals and early departures of board members. The Academy will work with the board secretary to ensure more accurate details and descriptions are presented within the board minutes.

**NOVA MERIDIAN ACADEMY**  
**(A California Non-Profit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2008**

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**2008-14 Code 60000 Miscellaneous**  
**Administrative Assistant Job Description**

**Specific Requirement:** As much as possible, job descriptions should reflect all of the significant responsibilities and functions related to the position.

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

**Questioned Costs:** Not applicable.

**Context:** We simply reviewed the job description. In our view, the most important, the most critical responsibility of the Academy's administrative assistant relates to the ADA-gathering and the ADA-related summarization work.

**Effect:** The current job description is not reflective of the incumbent's critical ADA-related responsibilities, since the job description omits the ADA-gathering and the ADA-summarization functions.

**Cause:** Unknown.

**Recommendation:** The job description for the administrative assistant should be revised to include his ADA-related functions.

**Academy's Response:**

To be implemented. Upon recommendation of the auditors, the business office will review the job description for the administration assistant and make necessary changes to include ADA related activities. The business office will submit the changes for approval to the board.

**NOVA MERIDIAN ACADEMY  
(A California Non-Profit Public Benefit Corporation)**

**FEDERAL & STATE AWARD FINDINGS  
JUNE 30, 2008**

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**Federal Award Findings**

There are no findings relative to any federal award or program.

**State Award Findings**

There are no findings relative to any State award or program.

**NOVA MERIDIAN ACADEMY  
(A California Non-Profit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

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There are no prior audit findings. This is the Academy's first complete year of operation.