

EDUCATION FOR CHANGE

**Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2016**

Operating:

Achieve Academy

ASCEND

Cox Academy

Epic Charter

Lazear Charter Academy

Learning Without Limits

Epic 1112 LLC

EDUCATION FOR CHANGE

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Education for Change
Oakland, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Education for Change (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the School's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Board of Directors
Education for Change

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the School's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 8, 2016

EDUCATION FOR CHANGE

STATEMENT OF FINANCIAL POSITION

June 30, 2016

With Comparative Totals for June 30, 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,351,619 | \$ 4,756,223 |
| Accounts receivable - federal and state | 4,381,708 | 3,182,879 |
| Accounts receivable - other | 3,775 | 1,376 |
| Prepaid expenses and other assets | 304,072 | 16,505 |
| Total current assets | <u>8,041,174</u> | <u>7,956,983</u> |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 1,066,938 | - |
| Buildings and building improvements | 1,042,956 | 500,000 |
| Equipment | 90,869 | 90,869 |
| Accumulated depreciation | (106,850) | (66,287) |
| Total property, plant and equipment | <u>2,093,913</u> | <u>524,582</u> |
| Total assets | <u>\$ 10,135,087</u> | <u>\$ 8,481,565</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$ 3,026,250 | \$ 2,799,625 |
| Total current liabilities | <u>3,026,250</u> | <u>2,799,625</u> |
| NET ASSETS: | | |
| Unrestricted | <u>7,108,837</u> | <u>5,681,940</u> |
| Total net assets | <u>7,108,837</u> | <u>5,681,940</u> |
| Total liabilities and net assets | <u>\$ 10,135,087</u> | <u>\$ 8,481,565</u> |

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

EDUCATION FOR CHANGE

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------------|---------------------|
| REVENUES: | | |
| State revenue: | | |
| State aid | \$ 19,408,715 | \$ 15,824,464 |
| Other state revenue | 4,851,736 | 3,064,497 |
| Federal revenue: | | |
| Grants and entitlements | 2,319,690 | 1,847,779 |
| Local revenue: | | |
| In-lieu property tax revenue | 5,642,333 | 4,855,846 |
| Contributions | 1,333,945 | 1,381,085 |
| Other revenue | 52,378 | 18 |
| Total revenues | <u>33,608,797</u> | <u>26,973,689</u> |
| EXPENSES: | | |
| Program services | 27,108,496 | 21,727,388 |
| Management and general | 5,012,580 | 4,756,889 |
| Fundraising | 60,824 | 6,539 |
| Total expenses | <u>32,181,900</u> | <u>26,490,816</u> |
| Change in unrestricted net assets | 1,426,897 | 482,873 |
| Beginning unrestricted net assets | <u>5,681,940</u> | <u>5,199,067</u> |
| Ending unrestricted net assets | <u>\$ 7,108,837</u> | <u>\$ 5,681,940</u> |

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

EDUCATION FOR CHANGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| CASH FLOWS from OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 1,426,897 | \$ 482,873 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 40,563 | 27,668 |
| Change in operating assets: | | |
| Accounts receivable - federal and state | (1,198,829) | 2,056,093 |
| Accounts receivable - other | (2,399) | (102) |
| Prepaid expenses and other assets | (287,567) | 83,776 |
| Change in operating liabilities: | | |
| Accounts payable and accrued liabilities | <u>226,625</u> | <u>422,480</u> |
| Net cash flows from operating activities | <u>205,290</u> | <u>3,072,788</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | <u>(1,609,894)</u> | <u>(299,943)</u> |
| Net cash flows from investing activities | <u>(1,609,894)</u> | <u>(299,943)</u> |
| Net change in cash and cash equivalents | (1,404,604) | 2,772,845 |
| Cash and cash equivalents at the beginning of the year | <u>4,756,223</u> | <u>1,983,378</u> |
| Cash and cash equivalents at the end of the year | <u>\$ 3,351,619</u> | <u>\$ 4,756,223</u> |

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

EDUCATION FOR CHANGE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

| | <u>Program</u> <u>Services</u> | <u>Mangagement</u> <u>and General</u> | <u>Fundraising</u> | <u>Total</u> <u>2016</u> | <u>Total</u> <u>2015</u> |
|------------------------------------|-----------------------------------|--|--------------------|-----------------------------|-----------------------------|
| Salaries and wages | \$ 14,277,197 | \$ 1,825,590 | \$ - | \$ 16,102,787 | \$ 13,001,204 |
| Pension expense | 1,336,044 | 182,290 | - | 1,518,334 | 1,122,006 |
| Other employee benefits | 2,248,773 | 255,890 | - | 2,504,663 | 2,288,580 |
| Payroll taxes | 553,775 | 80,170 | - | 633,945 | 503,056 |
| District oversight fees | 167,120 | 63,695 | - | 230,815 | 188,714 |
| Legal expenses | - | 19,580 | - | 19,580 | 15,312 |
| Other fees for services | 4,041,805 | 1,748,410 | - | 5,790,215 | 5,359,709 |
| Advertising and promotion expenses | 2,750 | 75,609 | - | 78,359 | 95,997 |
| Office expenses | 787,055 | 195,098 | - | 982,153 | 559,388 |
| Printing and postage expenses | 46,927 | 5,834 | - | 52,761 | 38,350 |
| Information technology expenses | 309,405 | 60,009 | - | 369,414 | 386,352 |
| Occupancy expenses | 2,120,812 | 119,836 | - | 2,240,648 | 1,634,840 |
| Travel expenses | 55,820 | 80,576 | - | 136,396 | 92,406 |
| Conference and meeting expenses | 67,009 | 42,187 | - | 109,196 | 63,193 |
| Depreciation expense | 40,563 | - | - | 40,563 | 27,667 |
| Insurance expense | - | 90,495 | - | 90,495 | 68,868 |
| Instructional materials | 853,640 | - | - | 853,640 | 827,656 |
| Other expenses | 199,801 | 167,311 | 60,824 | 427,936 | 217,518 |
| Total functional expenses 2016 | <u>\$ 27,108,496</u> | <u>\$ 5,012,580</u> | <u>\$ 60,824</u> | <u>\$ 32,181,900</u> | |
| Total functional expenses 2015 | <u>\$ 21,727,388</u> | <u>\$ 4,756,889</u> | <u>\$ 6,539</u> | | <u>\$ 26,490,816</u> |

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

EDUCATION FOR CHANGE

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Education for Change (the School), a charter management organization, was incorporated on January 21, 2005, under the laws of the State of California as a nonprofit benefit corporation. The School currently manages six (6) charter schools, Achieve Academy (Achieve), ASCEND, Cox, Epic Charter (Epic), Lazear Charter Academy (Lazear), and Learning Without Limits (LWL) (the Schools). Cox was granted its charter in 2005; Achieve in 2006; ASCEND, Lazear, and LWL in 2012; and Epic in 2014, all pursuant to the terms of the Charter Schools Act of 1992, as amended. Achieve, ASCEND, Epic, and LWL are all sponsored by the Oakland Unified School District (the District); Cox and Lazear are sponsored by the Alameda County Office of Education (ACOE). Epic began serving students in August 2014. The District and ACOE have certain responsibilities as the authorizers of the charter petitions of the Schools, and additional responsibilities as outlined in these agreements. The School also has certain responsibilities as the lead petitioner for these charters, and additional responsibilities as outlined in these agreements. The mission of the School is to achieve an excellent, high quality, free public education for all children with its focus on traditionally underserved children in the Oakland geographical area.

The accompanying financial statements also include the activity of Epic 1112 LLC (the LLC), of which the School is the sole member. The LLC was formed to hold title to property located in Oakland, California.

Cash and Cash Equivalents – The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

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, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Functional Allocation of Expenses – Costs of providing the School's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

EDUCATION FOR CHANGE

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes – The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the School are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

Receivables – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2016. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. The School capitalizes all expenditures for land, buildings and equipment in excess of \$2,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset. Depreciation expense was \$40,563 for the year ended June 30, 2016.

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences – Accumulated unpaid employee vacation benefits are recognized as a liability of the School. The current portion of the liability, if material, is recognized at year-end. The entire compensated absences liability is reported on the statement of financial position. Employees of the School are paid for days or hours worked based upon Board approved schedules which include vacation. Sick leave is accumulated without limit for each employee at the equivalent rate of one day for each full month of service. Sick leave with pay is provided when employees are absent for health reasons.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

EDUCATION FOR CHANGE

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes – The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

The LLC is considered a disregarded entity and therefore exempt from the payment of income taxes. Additionally, the LLC is in the process of obtaining exemption from the California state LLC fee under California Revenue and Taxation Code Section 23701h.

Evaluation of Subsequent Events – The School has evaluated subsequent events through December 8, 2016, the date these financial statements were available to be issued.

Comparative Totals – The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

NOTE 2: CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

EDUCATION FOR CHANGE

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 3: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the State of California.

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

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total plan net assets are \$181 billion, the total actuarial present value of accumulated plan benefits is \$242 billion, contributions from all employers totaled \$2.55 billion, and the plan is 68.5% funded. The School did not contribute more than 5% of the total contributions to the plan. Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Funding Policy

Active plan members hired before December 31, 2012 are required to contribute 9.20% of their salary and those hired after are required to contribute 8.56% of their salary. The School 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. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for year ended June 30, 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

EDUCATION FOR CHANGE

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 3: EMPLOYEE RETIREMENT

The School’s contributions to STRS for the past three years are as follows:

| Year Ended <u>June 30,</u> | Required <u>Contribution</u> | Percent <u>Contributed</u> |
|-------------------------------|---------------------------------|-------------------------------|
| 2014 | \$ 655,318 | 100% |
| 2015 | \$ 830,995 | 100% |
| 2016 | \$ 1,137,507 | 100% |

Public Employees’ Retirement System (PERS)

Plan Description

The School contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by CalPERS. Plan information for PERS is not publicly available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees’ Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$56.8 billion, the total actuarial present value of accumulated plan benefits is \$86 billion, contributions from all employers totaled \$1.3 billion, and the plan is 77.5% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the CalPERS’ annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov.

Funding Policy

Active plan members are required to contribute 7.0% of their salary while new members after January 1, 2013 are required to contribute 6.0% of their salary. The School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for year ended June 30, 2016 was 11.847%. The contribution requirements of the plan members are established and may be amended by State statute.

EDUCATION FOR CHANGE

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 3: EMPLOYEE RETIREMENT

Contributions to PERS

The School's contributions to PERS for each of the last three years are as follows:

| Year Ended <u>June 30,</u> | Required <u>Contribution</u> | Percent <u>Contributed</u> |
|-------------------------------|---------------------------------|-------------------------------|
| 2014 | \$ 251,024 | 100% |
| 2015 | \$ 291,011 | 100% |
| 2016 | \$ 380,827 | 100% |

Defined Contribution Plan

The School offers an Internal Revenue Code Section 403(b) retirement plan to each of its qualifying employees. Employee contributions are used to purchase annuity contracts for each participant employee. Additionally, the employer may elect to make a discretionary contribution for each qualifying employee for each plan year. The School did not contribute to the plan for the year ended June 30, 2016.

NOTE 4: OPERATING LEASES

The School has facility use and lease agreements. These agreements have varying terms with expirations ranging from 2016 to 2035. Lease expense for the year ended June 30, 2016 was \$1,454,516. Future estimated minimum lease payments under these agreements are as follows:

| Year Ended <u>June 30,</u> | |
|-------------------------------|---------------------|
| 2017 | \$ 1,721,769 |
| 2018 | 526,496 |
| 2019 | 208,235 |
| 2020 | 126,303 |
| 2021 | 130,092 |
| Thereafter | <u>2,289,480</u> |
| Total | <u>\$ 5,002,375</u> |

NOTE 5: SUBSEQUENT EVENT

The School obtained a \$1,500,000 line of credit in August 2016.

EDUCATION FOR CHANGE

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6: CONTINGENCIES

The School is subject to a claim for damages that arose in the normal course of business. The School has referred the claim to its insurance company and legal representation has been assigned. The outcome of this claim is currently unknown; however, the School believes any loss resulting from this claim will not be material.

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

SUPPLEMENTARY INFORMATION

EDUCATION FOR CHANGE

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE For the Year Ended June 30, 2016

Education for Change (the School), a charter management organization, was incorporated on January 21, 2005, under the laws of the State of California as a nonprofit benefit corporation and is the founder of Cox Academy which was formerly named E. Morris Cox Elementary Charter School. The Organization currently manages six (6) charter schools: Achieve Academy, ASCEND, Cox Academy, Epic Charter, Lazear Charter Academy, and Learning Without Limits. Each charter was granted pursuant to the terms of the Charter Schools Act of 1992, as amended.

The School's current charters are as follows:

Achieve Academy

Charter granted in 2006 by Oakland Unified School District and renewed in 2011.
State charter number: 0780

ASCEND

Charter granted in 2012 by Oakland Unified School District.
State charter number: 1443

Cox Academy

Charter granted in 2005 by Oakland Unified School District and renewed in 2015 by Alameda County Office of Education.
State charter number: 0740

Epic Charter

Charter granted in 2014 by Oakland Unified School District.
State charter number: 1632

Lazear Charter Academy

Charter granted in 2012 by Alameda County Office of Education.
State charter number: 1464

Learning Without Limits

Charter granted in 2012 by Oakland Unified School District.
State charter number: 1442

EDUCATION FOR CHANGE

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (continued)
For the Year Ended June 30, 2016**

The Board of Directors and the Administration for the year ended June 30, 2016 were as follows:

BOARD OF DIRECTORS

| Member | Office | Term | Term Expires |
|-----------------|-----------------|-------------|---------------------|
| Nick Driver | Chair | 3 years | 2019 |
| Brian Rogers | Vice Chair | 3 years | No term |
| Mike Barr | Treasurer | 3 years | 2016 |
| LaRayne Povlsen | Board Secretary | no term | No term |
| Eva Camp | Member | 3 years | 2019 |
| Paul Byrd | Member | 1 year | 2017 |
| Adam Smith | Member | 3 years | 2019 |
| Sadhir Aggarwal | Member | 3 years | 2017 |
| Dirk Tillotson | Member | 3 years | 2019 |
| Kathy Cash | Member | 1 year | 2017 |
| Roy Benford | Member | 3 years | 2019 |

ADMINISTRATION

| | |
|----------------|-------------------------|
| Hae-Sin Thomas | Chief Executive Officer |
| Noah Bradley | Chief Academic Officer |
| Fabiola Harvey | Chief Operating Officer |

EDUCATION FOR CHANGE

**SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016**

| Grade Level | 2015-16 Minutes | | Instructional | Status |
|--------------------------------|------------------------|---------------|----------------------|---------------|
| | Requirement | Actual | Days | |
| Achieve Academy | | | | |
| Kindergarten | 36,000 | 58,590 | 177 | In compliance |
| Grades 1 - 3 | 50,400 | 56,820 | 177 | In compliance |
| Grades 4 - 5 | 54,000 | 56,820 | 177 | In compliance |
| ASCEND | | | | |
| Kindergarten | 36,000 | 55,545 | 177 | In compliance |
| Grades 1 - 3 | 50,400 | 53,340 | 177 | In compliance |
| Grades 4 - 6 | 54,000 | 54,765 | 177 | In compliance |
| Grades 6 - 8 | 54,000 | 57,300 | 177 | In compliance |
| Cox Academy | | | | |
| Kindergarten | 36,000 | 51,540 | 177 | In compliance |
| Grades 1 - 3 | 50,400 | 53,205 | 177 | In compliance |
| Grades 4 - 5 | 54,000 | 54,090 | 177 | In compliance |
| Lazear Charter Academy | | | | |
| Kindergarten | 36,000 | 57,270 | 177 | In compliance |
| Grades 1 - 3 | 50,400 | 54,615 | 177 | In compliance |
| Grades 4 - 5 | 54,000 | 54,615 | 177 | In compliance |
| Grades 6 - 8 | 54,000 | 60,370 | 177 | In compliance |
| Learning Without Limits | | | | |
| Kindergarten | 36,000 | 60,675 | 178 | In compliance |
| Grades 1 - 3 | 50,400 | 60,675 | 178 | In compliance |
| Grades 4 - 5 | 54,000 | 60,675 | 178 | In compliance |
| Epic Academy | | | | |
| Grade 6 | 54,000 | 58,885 | 177 | In compliance |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016**

| Average Daily Attendance: | Second Period Report | | Annual Report | |
|----------------------------------|-----------------------------|-----------------|------------------------|-----------------|
| | Classroom Based | Total | Classroom Based | Total |
| Achieve Academy | | | | |
| TK/K-3 | 477.27 | 478.26 | 476.37 | 477.48 |
| Grades 4 and 5 | <u>235.55</u> | <u>236.08</u> | <u>233.54</u> | <u>234.00</u> |
| Total Achieve Academy | <u>712.82</u> | <u>714.34</u> | <u>709.91</u> | <u>711.48</u> |
| ASCEND | | | | |
| TK/K-3 | 189.68 | 190.52 | 188.97 | 190.02 |
| Grades 4 through 6 | 140.06 | 140.64 | 140.37 | 140.82 |
| Grades 7 and 8 | <u>96.61</u> | <u>96.80</u> | <u>96.62</u> | <u>96.76</u> |
| Total ASCEND Academy | <u>426.35</u> | <u>427.96</u> | <u>425.96</u> | <u>427.60</u> |
| Cox Academy | | | | |
| TK/K-3 | 380.18 | 381.53 | 377.30 | 379.05 |
| Grades 4 and 5 | <u>192.13</u> | <u>192.95</u> | <u>191.21</u> | <u>192.19</u> |
| Total Cox Academy | <u>572.31</u> | <u>574.48</u> | <u>568.51</u> | <u>571.24</u> |
| Lazear Charter Academy | | | | |
| TK/K-3 | 192.87 | 194.01 | 193.34 | 194.64 |
| Grades 4 through 6 | 150.45 | 151.85 | 150.10 | 151.19 |
| Grades 7 through 8 | <u>86.45</u> | <u>86.79</u> | <u>86.41</u> | <u>86.72</u> |
| Total Lazear Charter Academy | <u>429.77</u> | <u>432.65</u> | <u>429.85</u> | <u>432.55</u> |
| Learning Without Limits | | | | |
| TK/K-3 | 262.68 | 264.12 | 262.05 | 263.21 |
| Grades 4 through 5 | <u>135.79</u> | <u>136.37</u> | <u>134.94</u> | <u>135.41</u> |
| Total Learning Without Limits | <u>398.47</u> | <u>400.49</u> | <u>396.99</u> | <u>398.62</u> |
| Epic Academy | | | | |
| Grade 6 | 126.55 | 126.98 | 128.47 | 128.81 |
| Grade 7 | <u>148.02</u> | <u>148.27</u> | <u>147.72</u> | <u>148.23</u> |
| Total World Academy | <u>274.57</u> | <u>275.25</u> | <u>276.19</u> | <u>277.04</u> |
| Total Average Daily Attendance | <u>2,814.29</u> | <u>2,825.17</u> | <u>2,807.41</u> | <u>2,818.53</u> |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

| | <u>Achieve Academy</u> | <u>ASCEND</u> | <u>Cox Academy</u> | <u>Epic Academy</u> | <u>Lazear Charter Academy</u> | <u>Learning Without Limits</u> |
|--|----------------------------|-------------------|------------------------|-------------------------|---------------------------------------|--|
| June 30, 2016 Annual Financial Report | | | | | | |
| Fund Balances (Net Assets) | \$ 2,845,050 | \$ 847,590 | \$ 1,216,652 | \$ 849,839 | \$ 556,463 | \$ 526,401 |
| Adjustments and Reclassifications: | | | | | | |
| Increasing (Decreasing) the Fund Balance (Net Assets): | | | | | | |
| Cash | (1,178,554) | (393,441) | 28,676 | 35,449 | (444,930) | (385,776) |
| Accounts receivable - federal and state | 71,424 | 10,857 | (92,190) | 2,037 | (114,946) | (50,770) |
| Intercompany receivable | 968,782 | - | 575 | - | - | - |
| Prepaid expenses | - | - | - | - | 300 | - |
| Equipment, net | (566) | - | 126 | 22,957 | 18,183 | - |
| Accounts payable | (21,413) | 315,028 | 23,522 | (47,451) | (13,053) | 383,085 |
| Intercompany payable | - | - | - | (1,250,000) | 400,025 | - |
| Net Adjustments and Reclassifications | <u>(160,327)</u> | <u>(67,556)</u> | <u>(39,291)</u> | <u>(1,237,008)</u> | <u>(154,421)</u> | <u>(53,461)</u> |
| June 30, 2016 Audited Financial Statement | | | | | | |
| Fund Balances (Net Assets) | <u>\$ 2,684,723</u> | <u>\$ 780,034</u> | <u>\$ 1,177,361</u> | <u>\$ (387,169)</u> | <u>\$ 402,042</u> | <u>\$ 472,940</u> |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Pass-Through | | Achieve Academy | ASCEND | Cox Academy | Epic Academy | Lazear Charter Academy | Learning Without Limits | Home Office | Total Federal Expenditures |
|---|---------------------------|---------------------------------|--------------------|-------------------|-------------------|-------------------|------------------------------|-------------------------------|-----------------|-------------------------------|
| | Federal CFDA Number | Entity Identifying Number | | | | | | | | |
| U.S. Department of Education | | | | | | | | | | |
| Pass-Through the California Department of Education | | | | | | | | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | \$ 332,279 | \$ 176,264 | \$ 231,125 | \$ 117,157 | \$ 178,964 | \$ 154,296 | \$ - | \$ 1,190,085 |
| Title II, Part A, Improving Teacher Quality | 84.367 | 14341 | 4,207 | 7,664 | 3,346 | 1,590 | 2,466 | 2,311 | - | 21,584 |
| Title III, Part A, Limited English Proficiency | 84.365 | 14346 | 44,957 | 25,355 | 32,767 | 24,227 | 22,286 | 18,565 | - | 168,157 |
| Title V, Part B, Charter Schools | 84.282 | 14941 | - | 131,454 | - | 300,000 | 82,750 | 74,456 | 1,439 | 590,099 |
| Special Education: | | | | | | | | | | |
| IDEA Basic Local Assistance Entitlement, Part B | 84.027 | 13379 | 93,848 | 54,254 | 74,803 | 56,759 | 54,755 | 51,497 | - | 385,916 |
| <i>Total U.S. Department of Education</i> | | | <u>475,291</u> | <u>394,991</u> | <u>342,041</u> | <u>499,733</u> | <u>341,221</u> | <u>301,125</u> | <u>1,439</u> | <u>2,355,841</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 475,291</u> | <u>\$ 394,991</u> | <u>\$ 342,041</u> | <u>\$ 499,733</u> | <u>\$ 341,221</u> | <u>\$ 301,125</u> | <u>\$ 1,439</u> | <u>\$ 2,355,841</u> |
| Reconciliation to Federal Revenues | | | | | | | | | | |
| Total Federal Program Expenditures | | | \$ 475,291 | \$ 394,991 | \$ 342,041 | \$ 499,733 | \$ 341,221 | \$ 301,125 | \$ 1,439 | \$ 2,355,841 |
| Less: Expenditures in excess of revenues related to Federal awards | | | | | | | | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | (20,770) | (8,912) | - | (3,121) | - | - | - | (32,803) |
| Title II, Part A, Improving Teacher Quality | 84.367 | 14341 | - | (3,344) | - | - | (4) | - | - | (3,348) |
| Total Federal Revenues | | | <u>\$ 454,521</u> | <u>\$ 382,735</u> | <u>\$ 342,041</u> | <u>\$ 496,612</u> | <u>\$ 341,217</u> | <u>\$ 301,125</u> | <u>\$ 1,439</u> | <u>\$ 2,319,690</u> |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

COMBINING STATEMENT OF FINANCIAL POSITION For the Year Ended June 30, 2016

| ASSETS | Achieve Academy | ASCEND | Cox Academy | Epic Academy | Lazear Charter Academy | Learning Without Limits | Home Office | Eliminations | Total |
|--|----------------------------|---------------------|---------------------|---------------------|---------------------------------------|--|---------------------|-----------------------|---------------------|
| CURRENT ASSETS: | | | | | | | | | |
| Cash and cash equivalents | \$ 1,326,512 | \$ 539,043 | \$ 1,009,084 | \$ 58,607 | \$ 14,570 | \$ 371,086 | \$ 32,717 | \$ - | \$ 3,351,619 |
| Accounts receivable - federal and state | 995,476 | 645,295 | 791,896 | 730,971 | 660,207 | 552,416 | 5,447 | - | 4,381,708 |
| Accounts receivable - other | - | - | - | - | - | - | 3,775 | - | 3,775 |
| Intercompany receivable | 968,782 | - | 575 | - | - | - | 922,857 | (1,892,214) | - |
| Prepaid expenses and other assets | <u>55,240</u> | <u>5,558</u> | <u>41,377</u> | <u>71,733</u> | <u>23,739</u> | <u>27,846</u> | <u>78,579</u> | <u>-</u> | <u>304,072</u> |
| Total current assets | <u>3,346,010</u> | <u>1,189,896</u> | <u>1,842,932</u> | <u>861,311</u> | <u>698,516</u> | <u>951,348</u> | <u>1,043,375</u> | <u>(1,892,214)</u> | <u>8,041,174</u> |
| PROPERTY, PLANT AND EQUIPMENT: | | | | | | | | | |
| Land | - | - | - | - | - | - | 1,066,938 | - | 1,066,938 |
| Buildings and building improvements | - | - | - | 773,020 | 269,936 | - | - | - | 1,042,956 |
| Equipment | 2,834 | - | 2,226 | 49,943 | - | - | 35,866 | - | 90,869 |
| Accumulated depreciation | <u>(2,677)</u> | <u>-</u> | <u>(2,100)</u> | <u>(61,708)</u> | <u>(4,499)</u> | <u>-</u> | <u>(35,866)</u> | <u>-</u> | <u>(106,850)</u> |
| Total property, plant and equipment | <u>157</u> | <u>-</u> | <u>126</u> | <u>761,255</u> | <u>265,437</u> | <u>-</u> | <u>1,066,938</u> | <u>-</u> | <u>2,093,913</u> |
| Total assets | <u>\$ 3,346,167</u> | <u>\$ 1,189,896</u> | <u>\$ 1,843,058</u> | <u>\$ 1,622,566</u> | <u>\$ 963,953</u> | <u>\$ 951,348</u> | <u>\$ 2,110,313</u> | <u>\$ (1,892,214)</u> | <u>\$10,135,087</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 661,444 | \$ 409,862 | \$ 665,697 | \$ 277,496 | \$ 401,936 | \$ 478,408 | \$ 131,407 | \$ - | \$ 3,026,250 |
| Intercompany payable | - | - | - | 1,732,239 | 159,975 | - | - | (1,892,214) | - |
| Total current liabilities | <u>661,444</u> | <u>409,862</u> | <u>665,697</u> | <u>2,009,735</u> | <u>561,911</u> | <u>478,408</u> | <u>131,407</u> | <u>(1,892,214)</u> | <u>3,026,250</u> |
| Total liabilities | <u>661,444</u> | <u>409,862</u> | <u>665,697</u> | <u>2,009,735</u> | <u>561,911</u> | <u>478,408</u> | <u>131,407</u> | <u>(1,892,214)</u> | <u>3,026,250</u> |
| NET ASSETS: | | | | | | | | | |
| Unrestricted | <u>2,684,723</u> | <u>780,034</u> | <u>1,177,361</u> | <u>(387,169)</u> | <u>402,042</u> | <u>472,940</u> | <u>1,978,906</u> | <u>-</u> | <u>7,108,837</u> |
| Total net assets | <u>2,684,723</u> | <u>780,034</u> | <u>1,177,361</u> | <u>(387,169)</u> | <u>402,042</u> | <u>472,940</u> | <u>1,978,906</u> | <u>-</u> | <u>7,108,837</u> |
| Total liabilities and net assets | <u>\$ 3,346,167</u> | <u>\$ 1,189,896</u> | <u>\$ 1,843,058</u> | <u>\$ 1,622,566</u> | <u>\$ 963,953</u> | <u>\$ 951,348</u> | <u>\$ 2,110,313</u> | <u>\$ (1,892,214)</u> | <u>\$10,135,087</u> |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

**COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

| | <u>Achieve Academy</u> | <u>ASCEND</u> | <u>Cox Academy</u> | <u>Epic Academy</u> | <u>Lazear Charter Academy</u> | <u>Learning Without Limits</u> | <u>Home Office</u> | <u>Eliminations</u> | <u>Total</u> |
|-----------------------------------|----------------------------|-------------------|---------------------|---------------------|---------------------------------------|--|---------------------|---------------------|---------------------|
| REVENUES: | | | | | | | | | |
| State revenue: | | | | | | | | | |
| State aid | \$ 4,917,151 | \$ 2,908,789 | \$ 4,038,856 | \$ 1,875,115 | \$ 2,928,301 | \$ 2,740,503 | \$ - | \$ - | \$ 19,408,715 |
| Other state revenue | 1,257,033 | 795,117 | 1,061,441 | 338,420 | 748,671 | 651,054 | - | - | 4,851,736 |
| Federal revenue: | | | | | | | | | |
| Grants and entitlements | 454,521 | 382,735 | 342,041 | 496,612 | 341,217 | 301,125 | 1,439 | - | 2,319,690 |
| Local revenue: | | | | | | | | | |
| In-lieu property tax revenue | 1,424,032 | 853,814 | 1,146,400 | 556,600 | 863,629 | 797,858 | - | - | 5,642,333 |
| Contributions | 96,265 | 229,870 | 110,882 | 233,145 | 758,811 | 54,848 | 500,124 | (650,000) | 1,333,945 |
| Other revenue | - | 100 | - | - | - | 100 | 3,876,346 | (3,824,168) | 52,378 |
| Total unrestricted revenues | <u>8,149,002</u> | <u>5,170,425</u> | <u>6,699,620</u> | <u>3,499,892</u> | <u>5,640,629</u> | <u>4,545,488</u> | <u>4,377,909</u> | <u>(4,474,168)</u> | <u>33,608,797</u> |
| EXPENSES: | | | | | | | | | |
| Program services | 5,533,497 | 3,963,150 | 5,035,159 | 3,241,048 | 3,811,355 | 3,337,241 | 2,187,046 | - | 27,108,496 |
| Management and general | 1,463,839 | 852,483 | 1,314,873 | 607,939 | 972,140 | 766,874 | 3,508,600 | (4,474,168) | 5,012,580 |
| Fundraising | - | 226 | 3,469 | - | 3,861 | - | 53,268 | - | 60,824 |
| Total expenses | <u>6,997,336</u> | <u>4,815,859</u> | <u>6,353,501</u> | <u>3,848,987</u> | <u>4,787,356</u> | <u>4,104,115</u> | <u>5,748,914</u> | <u>(4,474,168)</u> | <u>32,181,900</u> |
| Change in unrestricted net assets | 1,151,666 | 354,566 | 346,119 | (349,095) | 853,273 | 441,373 | (1,371,005) | - | 1,426,897 |
| Beginning unrestricted net assets | <u>1,533,057</u> | <u>425,468</u> | <u>831,242</u> | <u>(38,074)</u> | <u>(451,231)</u> | <u>31,567</u> | <u>3,349,911</u> | <u>-</u> | <u>5,681,940</u> |
| Ending unrestricted net assets | <u>\$ 2,684,723</u> | <u>\$ 780,034</u> | <u>\$ 1,177,361</u> | <u>\$ (387,169)</u> | <u>\$ 402,042</u> | <u>\$ 472,940</u> | <u>\$ 1,978,906</u> | <u>\$ -</u> | <u>\$ 7,108,837</u> |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

COMBINING STATEMENT OF CASH FLOWS For the Year Ended June 30, 2016

| | Achieve Academy | ASCEND | Cox Academy | Epic Academy | Lazear Charter Academy | Learning Without Limits | Home Office | Eliminations | Total |
|--|---------------------|-------------------|---------------------|------------------|------------------------------|-------------------------------|--------------------|--------------|---------------------|
| CASH FLOWS from OPERATING ACTIVITIES: | | | | | | | | | |
| Change in net assets | \$ 1,151,666 | \$ 354,566 | \$ 346,119 | \$ (349,095) | \$ 853,273 | \$ 441,373 | \$ (1,371,005) | \$ - | \$ 1,426,897 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | | | | | | | | |
| Depreciation | 567 | - | 445 | 35,052 | 4,499 | - | - | - | 40,563 |
| (Increase) decrease in operating assets: | | | | | | | | | |
| Accounts receivable - federal and state | (166,082) | (145,762) | (110,490) | (507,496) | (193,643) | (76,055) | 699 | - | (1,198,829) |
| Accounts receivable - other | - | - | - | - | - | - | (2,399) | - | (2,399) |
| Intercompany receivable | (968,782) | - | (575) | - | - | - | 1,684,039 | (714,682) | - |
| Prepaid expenses and other assets | (54,976) | (5,558) | (41,158) | (70,916) | (22,821) | (27,846) | (64,292) | - | (287,567) |
| Increase (decrease) in operating liabilities: | | | | | | | | | |
| Accounts payable and accrued liabilities | 70,071 | (29,764) | (19,651) | 156,921 | 27,665 | (8,781) | 30,164 | - | 226,625 |
| Intercompany payable | - | (340,776) | - | 1,067,161 | (1,050,025) | (391,042) | - | 714,682 | - |
| Net cash flows from operating activities | <u>32,464</u> | <u>(167,294)</u> | <u>174,690</u> | <u>331,627</u> | <u>(381,052)</u> | <u>(62,351)</u> | <u>277,206</u> | <u>-</u> | <u>205,290</u> |
| CASH FLOWS from INVESTING ACTIVITIES: | | | | | | | | | |
| Purchases of property, plant and equipment | - | - | - | (273,020) | (269,936) | - | (1,066,938) | - | (1,609,894) |
| Net cash flows from investing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>(273,020)</u> | <u>(269,936)</u> | <u>-</u> | <u>(1,066,938)</u> | <u>-</u> | <u>(1,609,894)</u> |
| Net increase (decrease) in cash and cash equivalents | 32,464 | (167,294) | 174,690 | 58,607 | (650,988) | (62,351) | (789,732) | - | (1,404,604) |
| Cash and cash equivalents at the beginning of the year | <u>1,294,048</u> | <u>706,337</u> | <u>834,394</u> | <u>-</u> | <u>665,558</u> | <u>433,437</u> | <u>822,449</u> | <u>-</u> | <u>4,756,223</u> |
| Cash and cash equivalents at the end of the year | <u>\$ 1,326,512</u> | <u>\$ 539,043</u> | <u>\$ 1,009,084</u> | <u>\$ 58,607</u> | <u>\$ 14,570</u> | <u>\$ 371,086</u> | <u>\$ 32,717</u> | <u>\$ -</u> | <u>\$ 3,351,619</u> |

See independent auditor's report and the notes to the supplementary information.

EDUCATION FOR CHANGE

NOTES TO THE SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2016

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the corresponding provisions of California Education Code.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal governmental for the year ended June 30, 2016. The information in this Schedule is presented on the accrual basis of accounting in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Indirect Cost Rate

The School has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Combined Financial Statements

These statements report the financial position, activities, and cash flows for each of Education for Change's charter schools.



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

Board of Directors
Education for Change
Oakland, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Education for Change (the School), a nonprofit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vicenti, Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 8, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Board of Directors
Education for Change
Oakland, CA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Education for Change (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Report on Internal Control Over Compliance

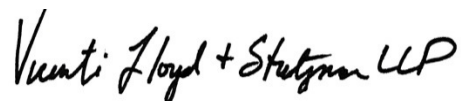
Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility, that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 8, 2016



INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
Education for Change
Oakland, CA

We have audited Education for Change’s (the School) compliance with the types of compliance requirements described in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2016. The School’s State compliance requirements are identified in the table below.

Management’s Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor’s Responsibility

Our responsibility is to express an opinion on the School’s compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the School’s compliance.

Compliance Requirements Tested

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

| <u>Description</u> | <u>Procedures Performed</u> |
|---|-----------------------------|
| School Districts, County Offices of Education, and Charter Schools: | |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

| <u>Description</u> | <u>Procedures Performed</u> |
|---|-----------------------------|
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study-Course Based | Not applicable |
| Immunizations | Yes |
| Charter Schools: | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Nonclassroom-based instructional/independent study | No ¹ |
| Determination of funding for nonclassroom-based instruction | Not applicable |
| Annual instructional minutes – classroom based | Yes |
| Charter School Facility Grant Program | Yes |

¹ We did not perform testing for independent study because the independent study ADA was under the level which requires testing.

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
 Glendora, CA
 December 8, 2016

EDUCATION FOR CHANGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of Major Federal Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 84.010 | Title I, Part A – Low Income and Neglected |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

EDUCATION FOR CHANGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

All audit findings must be identified as one or more of the following categories:

| <u>Five Digit Code</u> | <u>Finding Types</u> |
|------------------------|-----------------------------------|
| 10000 | Attendance |
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Program |
| 50000 | Federal Compliance |
| 60000 | Miscellaneous |
| 61000 | Classroom Teacher Salaries |
| 62000 | Local Control Accountability Plan |
| 70000 | Instructional Materials |
| 71000 | Teacher Misassignments |
| 72000 | School Accountability Report Card |

There were no findings and questioned costs related to the basic financial statements, federal awards, or state awards for the year ended June 30, 2016.

EDUCATION FOR CHANGE

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2016

There were no findings and questioned costs related to the basic financial statements or federal awards in the prior year.

STATE COMPLIANCE FINDINGS

Finding 2015-001 – Average Daily Attendance Reporting

10000

Schools: ASCEND and Learning Without Limits

Criteria: Per Education Code Section 47612, Average Daily Attendance (ADA) reported on the P-2 should be computed by dividing the charter school's total number of pupil days of attendance by the number of calendar days on which the school was taught. The calendar days on the divisor should correspond to the school calendar.

Condition: Instructional days per the P-2 attendance reports for Learning Without Limits and Ascend did not agree with the respective published calendars. After inquiring about this issue we discovered that at Ascend and Learning Without Limits, the School was using the District system for attendance reporting (AERIES). The School mistakenly assumed the District would have the same reporting days as Ascend and Learning Without Limits. However, one school day was cancelled at all of the School's sites due to a storm. The District did not account for this and as a result 180 days were mistakenly reported for the fiscal year but with the weather day, only 179 should have been reported.

Cause: The School mistakenly assumed the District would have the same reporting days as Ascend and Learning Without Limits.

Effect: ADA was under-reported on the P-2 and P-Annual reports.

Questioned Costs and Units: ADA was under-reported by 2.82 for Ascend and 2.58 for Learning Without Limits. Correcting these errors will result in an estimated increase to principal apportionment in the amount of \$23,644 for Ascend and \$19,733 for Learning Without Limits.

Recommendation: We recommend the School work with the District to amend its attendance reports and to implement additional review procedures in order to identify potential errors resulting from irregular events such as cancelled school days.

Status: Implemented.