

ACE CHARTER SCHOOL

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

Operating:

**ACE Empower Academy
ACE Charter High
ACE Franklin McKinley
ACE Alum Rock
ACE Inspire Academy**

ACE CHARTER SCHOOL

TABLE OF CONTENTS

June 30, 2016

Independent Auditor’s Report..... 1

Consolidated Statement of Financial Position 4

Consolidated Statement of Activities..... 5

Consolidated Statement of Cash Flows 6

Consolidated Statement of Functional Expenses 7

Notes to the Consolidated Financial Statements..... 8

Local Education Agency Organization Structure 15

Schedule of Instructional Time..... 17

Schedule of Average Daily Attendance 18

Reconciliation of Annual Financial Report with Audited Financial Statements 19

Schedule of Expenditures of Federal Awards..... 20

Notes to the Supplementary Information..... 21

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*..... 22

Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance 24

Independent Auditor's Report on State Compliance..... 26

Schedule of Findings and Questioned Costs..... 28

Status of Prior Year Findings and Questioned Costs..... 30



INDEPENDENT AUDITOR'S REPORT

Board of Directors
ACE Charter School
San Jose, CA

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ACE Charter School (the School), a California nonprofit public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated 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.

Board of Directors
ACE Charter School

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

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 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 statement. 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.

Report on Summarized Comparative Information

We have previously audited the School's June 30, 2015 financial statements, and in our report dated September 28, 2015, expressed an unmodified opinion on those financial statements. 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.

Board of Directors
ACE Charter School

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 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
November 10, 2016

ACE CHARTER SCHOOL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016

with Comparative Totals for 2015

	<u>ACE Empower Academy</u>	<u>ACE Charter High</u>	<u>ACE Franklin McKinley</u>	<u>ACE Alum Rock</u>	<u>ACE Inspire Academy</u>	<u>CMO</u>	<u>Foundation LLC</u>	<u>Eliminations</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents	\$ 868,546	\$ 282,737	\$ 258,636	\$ 177,713	\$ 7,626	\$ 52,884	\$ 54,377	\$ -	\$ 1,702,519	\$ 2,885,285
Accounts receivable - federal and state	269,083	350,297	146,685	126,429	215,776	-	-	-	1,108,270	732,643
Accounts receivable - other	-	-	-	-	-	49,870	-	-	49,870	-
Intercompany receivables	-	-	-	-	-	443,867	-	(443,867)	-	-
Prepaid expenses and other assets	8,404	29,810	21,066	5,435	10,096	3,975	27,308	-	106,094	93,450
Total current assets	<u>1,146,033</u>	<u>662,844</u>	<u>426,387</u>	<u>309,577</u>	<u>233,498</u>	<u>550,596</u>	<u>81,685</u>	<u>(443,867)</u>	<u>2,966,753</u>	<u>3,711,378</u>
LONG-TERM ASSETS:										
Property, plant and equipment, net	<u>46,380</u>	<u>2,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,472,576</u>	<u>-</u>	<u>4,521,025</u>	<u>4,577,149</u>
Total long-term assets	<u>46,380</u>	<u>2,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,472,576</u>	<u>-</u>	<u>4,521,025</u>	<u>4,577,149</u>
Total assets	<u>\$ 1,192,413</u>	<u>\$ 664,913</u>	<u>\$ 426,387</u>	<u>\$ 309,577</u>	<u>\$ 233,498</u>	<u>\$ 550,596</u>	<u>\$ 4,554,261</u>	<u>\$ (443,867)</u>	<u>\$ 7,487,778</u>	<u>\$ 8,288,527</u>
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Accounts payable and accrued liabilities	\$ 146,974	\$ 101,098	\$ 78,712	\$ 70,397	\$ 113,586	\$ 158,138	\$ 57,417	\$ -	\$ 726,322	\$ 437,617
Intercompany payables	158,162	17,533	106,662	56,544	81,496	-	23,470	(443,867)	-	-
Deferred revenue	-	-	-	-	33,749	-	-	-	33,749	-
Revolving loan payable, current portion	-	62,508	50,004	50,004	-	-	-	-	162,516	162,508
Notes payable, current portion	-	-	-	-	-	-	145,817	-	145,817	136,153
Total current liabilities	<u>305,136</u>	<u>181,139</u>	<u>235,378</u>	<u>176,945</u>	<u>228,831</u>	<u>158,138</u>	<u>226,704</u>	<u>(443,867)</u>	<u>1,068,404</u>	<u>736,278</u>
LONG-TERM LIABILITIES:										
Revolving loan payable	-	-	100,000	100,000	-	-	-	-	200,000	362,500
Notes payable	-	-	-	-	-	-	3,588,909	-	3,588,909	3,693,648
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>3,588,909</u>	<u>-</u>	<u>3,788,909</u>	<u>4,056,148</u>
NET ASSETS:										
Unrestricted	840,897	481,705	91,009	32,632	4,667	392,458	58,215	-	1,901,583	2,806,503
Unrestricted - property plant and equipment	<u>46,380</u>	<u>2,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>680,433</u>	<u>-</u>	<u>728,882</u>	<u>689,598</u>
Total net assets	<u>887,277</u>	<u>483,774</u>	<u>91,009</u>	<u>32,632</u>	<u>4,667</u>	<u>392,458</u>	<u>738,648</u>	<u>-</u>	<u>2,630,465</u>	<u>3,496,101</u>
Total liabilities and net assets	<u>\$ 1,192,413</u>	<u>\$ 664,913</u>	<u>\$ 426,387</u>	<u>\$ 309,577</u>	<u>\$ 233,498</u>	<u>\$ 550,596</u>	<u>\$ 4,554,261</u>	<u>\$ (443,867)</u>	<u>\$ 7,487,778</u>	<u>\$ 8,288,527</u>

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

ACE CHARTER SCHOOL

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
with Comparative Totals for 2015

	<u>ACE Empower Academy</u>	<u>ACE Charter High</u>	<u>ACE Franklin McKinley</u>	<u>ACE Alum Rock</u>	<u>ACE Inspire Academy</u>	<u>CMO</u>	<u>Foundation LLC</u>	<u>Eliminations</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
REVENUES:										
State revenue:										
State aid	\$ 2,298,265	\$ 1,679,050	\$ 1,473,283	\$ 659,819	\$ 275,581	\$ -	\$ -	\$ -	\$ 6,385,998	\$ 5,199,604
Other state revenue	970,595	322,231	397,073	267,225	72,404	-	-	-	2,029,528	889,329
Federal revenue:										
Grants and entitlements	376,046	130,451	213,932	262,503	291,802	-	-	-	1,274,734	1,513,557
Local revenue:										
In-lieu property tax revenue	616,228	890,029	468,894	166,483	616,354	-	-	-	2,757,988	1,723,304
Contributions	-	-	-	-	-	2,113,776	-	-	2,113,776	2,360,977
Investment income	2	22	-	-	-	-	33	-	57	20
Other revenue	16,295	26,914	12,179	2,506	2,918	1,570,864	484,992	(2,055,856)	60,812	97,259
Total revenues	<u>4,277,431</u>	<u>3,048,697</u>	<u>2,565,361</u>	<u>1,358,536</u>	<u>1,259,059</u>	<u>3,684,640</u>	<u>485,025</u>	<u>(2,055,856)</u>	<u>14,622,893</u>	<u>11,784,050</u>
EXPENSES:										
Program services	4,115,800	3,012,742	2,278,839	1,401,910	1,581,376	51,666	545,639	(484,992)	12,502,980	8,716,991
Management and general	459,509	377,968	424,317	248,173	279,747	2,761,653	5,046	(1,570,864)	2,985,549	2,287,909
Total expenses	<u>4,575,309</u>	<u>3,390,710</u>	<u>2,703,156</u>	<u>1,650,083</u>	<u>1,861,123</u>	<u>2,813,319</u>	<u>550,685</u>	<u>(2,055,856)</u>	<u>15,488,529</u>	<u>11,004,900</u>
TRANSFERS:										
Intracompany transfers	-	369,999	160,001	245,000	440,000	(1,215,000)	-	-	-	-
Change in unrestricted net assets	(297,878)	27,986	22,206	(46,547)	(162,064)	(343,679)	(65,660)	-	(865,636)	779,150
Beginning unrestricted net assets	1,185,155	455,788	68,803	79,179	166,731	736,137	804,308	-	3,496,101	2,716,951
Ending unrestricted net assets	<u>\$ 887,277</u>	<u>\$ 483,774</u>	<u>\$ 91,009</u>	<u>\$ 32,632</u>	<u>\$ 4,667</u>	<u>\$ 392,458</u>	<u>\$ 738,648</u>	<u>\$ -</u>	<u>\$ 2,630,465</u>	<u>\$ 3,496,101</u>

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

ACE CHARTER SCHOOL

CONSOLIDATED STATEMENT OF CASH FLOWS For the Year Ended June 30, 2016 with Comparative Totals for 2015

	<u>ACE Empower Academy</u>	<u>ACE Charter High</u>	<u>ACE Franklin McKinley</u>	<u>ACE Alum Rock</u>	<u>ACE Inspire Academy</u>	<u>CMO</u>	<u>Foundation LLC</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
CASH FLOWS from OPERATING ACTIVITIES:									
Change in net assets	\$ (297,878)	\$ 27,986	\$ 22,206	\$ (46,547)	\$ (162,064)	\$ (343,679)	\$ (65,660)	\$ (865,636)	\$ 779,150
Adjustments to reconcile change in net assets to net cash from operating activities:									
Depreciation	17,903	1,307	-	-	-	-	165,941	185,151	185,737
Loss on disposal of assets	-	-	-	-	-	-	-	-	20,785
Change in operating assets:									
Accounts receivable - federal and state	(57,085)	(78,171)	8,982	(57,296)	(193,276)	1,219	-	(375,627)	254,271
Accounts receivable - other	-	-	-	-	-	(49,870)	-	(49,870)	9,841
Intercompany receivable	-	348,770	-	183,148	-	(443,867)	-	88,051	(298,190)
Prepaid expenses and other assets	(4,086)	(13,487)	(10,757)	2,617	(2,280)	4,099	11,250	(12,644)	7,542
Change in operating liabilities:									
Accounts payable and accrued liabilities	91,737	(32,016)	49,674	59,362	107,488	12,793	(333)	288,705	8,962
Intercompany payable	(17,619)	17,533	29,801	56,544	59,856	(257,636)	23,470	(88,051)	298,190
Deferred revenue	-	-	-	-	33,749	-	-	33,749	(32,130)
Net cash flows from operating activities	<u>(267,028)</u>	<u>271,922</u>	<u>99,906</u>	<u>197,828</u>	<u>(156,527)</u>	<u>(1,076,941)</u>	<u>134,668</u>	<u>(796,172)</u>	<u>1,234,158</u>
CASH FLOWS from INVESTING ACTIVITIES:									
Purchases of property, plant and equipment	-	-	-	-	-	-	(129,027)	(129,027)	-
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(129,027)</u>	<u>(129,027)</u>	<u>-</u>
CASH FLOWS from FINANCING ACTIVITIES:									
Repayments of debt	-	(62,496)	(49,998)	(49,998)	-	-	(95,075)	(257,567)	(224,178)
Net cash flows from financing activities	<u>-</u>	<u>(62,496)</u>	<u>(49,998)</u>	<u>(49,998)</u>	<u>-</u>	<u>-</u>	<u>(95,075)</u>	<u>(257,567)</u>	<u>(224,178)</u>
Net change in cash and cash equivalents	(267,028)	209,426	49,908	147,830	(156,527)	(1,076,941)	(89,434)	(1,182,766)	1,009,980
Cash and cash equivalents at the beginning of the year	1,135,574	73,311	208,728	29,883	164,153	1,129,825	143,811	2,885,285	1,875,305
Cash and cash equivalents at the end of the year	<u>\$ 868,546</u>	<u>\$ 282,737</u>	<u>\$ 258,636</u>	<u>\$ 177,713</u>	<u>\$ 7,626</u>	<u>\$ 52,884</u>	<u>\$ 54,377</u>	<u>\$ 1,702,519</u>	<u>\$ 2,885,285</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 253</u>	<u>\$ 403</u>	<u>\$ 403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,697</u>	<u>\$ 245,756</u>	<u>\$ 250,399</u>

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

ACE CHARTER SCHOOL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

with Comparative Totals for 2015

	Program Services	Management and General	2016 Total Expenses	2015 Total Expenses
Schools and CMO:				
Salaries and wages	\$ 6,238,230	\$ 1,563,640	\$ 7,801,870	\$ 5,220,875
Pension expense	485,512	67,147	552,659	316,217
Other employee benefits	693,408	138,087	831,495	556,919
Payroll taxes	215,250	114,150	329,400	209,032
Management fees	-	1,659,845	1,659,845	1,256,244
Legal expenses	-	94,421	94,421	55,841
Accounting expenses	-	45,161	45,161	16,846
Instructional materials	567,089	-	567,089	413,484
Other fees for services	1,789,006	184,055	1,973,061	1,282,051
Advertising and promotion expenses	8,605	78,515	87,120	260,398
Office expenses	423,724	-	423,724	352,072
Printing and postage expenses	20,178	13,084	33,262	35,143
Information technology expenses	305,083	74,768	379,851	418,186
Occupancy expenses	914,230	78,283	992,513	887,821
Travel expenses	156,647	58,869	215,516	115,833
Conference and meeting expenses	92,474	49,129	141,603	89,964
Interest expense	-	1,059	1,059	1,243
Depreciation expense	19,210	-	19,210	19,972
Insurance expense	-	81,358	81,358	70,217
Other expenses	513,687	249,796	763,483	496,445
Total Schools and CMO	<u>12,442,333</u>	<u>4,551,367</u>	<u>16,993,700</u>	<u>12,074,803</u>
Foundation LLC:				
Accounting expenses	-	3,386	3,386	1,305
Occupancy expenses	135,001	-	135,001	135,000
Interest expense	244,697	-	244,697	270,156
Depreciation expense	165,941	-	165,941	165,765
Other expenses	-	1,660	1,660	1,411
Total Foundation LLC	<u>545,639</u>	<u>5,046</u>	<u>550,685</u>	<u>573,637</u>
Eliminations	<u>(484,992)</u>	<u>(1,570,864)</u>	<u>(2,055,856)</u>	<u>(1,643,540)</u>
Grand Total	<u>\$ 12,502,980</u>	<u>\$ 2,985,549</u>	<u>\$ 15,488,529</u>	<u>\$ 11,004,900</u>

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

ACE CHARTER SCHOOL

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – ACE Charter School (the School) is a California non-profit public benefit corporation and is organized to manage and operate public charter schools. The School is funded principally through State of California public education monies received through the California Department of Education. The charters may be revoked by the Sponsor for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

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.

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.

ACE CHARTER SCHOOL

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset. The School capitalizes all expenditures for land, buildings and equipment in excess of \$5,000.

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. Unused accrued sick leave for full-time staff carries over from year-to-year, subject to a maximum accrual cap of one-hundred sixty (160) hours. For all other eligible employees, unused sick leave does not carry over from year-to-year.

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.

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.

Income Taxes – The School and Foundation are non-profit entities 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 and Foundation file 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.

ACE CHARTER SCHOOL

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allocations Between Charter Schools – For the year ended June 30, 2016, the School has chosen to identify each charter school separately within the basic financial statements. In cases where specific identification of each charter’s activities was not possible, items were allocated according to Average Daily Attendance (ADA).

Principles of Consolidation - The accompanying financial statements include the accounts of ACE Empower Academy, ACE Charter High, ACE Franklin McKinley, ACE Alum Rock, ACE Inspire Academy, the ACE Charter Management Organization (the CMO), and the ACE Foundation (the Foundation). The Foundation is the single member of ACE Charter School LLC (the Foundation LLC), and the activity of the Foundation LLC is included with the Foundation in the financial statements. All significant intercompany accounts and transactions between these entities have been eliminated in the consolidated financial statements.

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. Certain prior year totals have been adjusted to conform to the June 30, 2016 presentation.

Evaluation of Subsequent Events – The School has evaluated subsequent events through November 10, 2016, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The School also maintains cash balances held in banks and revolving funds 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.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$185,151 as of June 30, 2016.

The components of property, plant and equipment as of June 30, 2016 are as follows:

Building and improvements	\$5,031,114
Furniture, fixtures and equipment	122,263
Other	<u>108,066</u>
	5,261,443
Less: accumulated depreciation and amortization	<u>(740,418)</u>
Property, plant and equipment, net	<u>\$4,521,025</u>

ACE CHARTER SCHOOL

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

NOTE 4: LONG-TERM DEBT

California Department of Education

ACE Charter High received a revolving loan from the California Department of Education in the amount of \$250,000. The loan requires annual principal payments of \$62,500. The loan has a term of 4 years and carries an interest rate of .264%.

ACE Franklin McKinley received a revolving loan from the California Department of Education in the amount of \$250,000. The loan requires annual principal payments of \$50,000. The loan has a term of 5 years and carries an interest rate of .264%.

ACE Alum Rock received a revolving loan from the California Department of Education in the amount of \$250,000. The loan requires annual principal payments of \$50,000. The loan has a term of 5 years and carries an interest rate of .264%.

Annual payments of principal and interest are deducted from apportionment. The loan repayments by year are as follows:

Year Ended <u>June 30,</u>	ACE <u>Charter High</u>	ACE Franklin <u>McKinley</u>	ACE <u>Alum Rock</u>	<u>Total</u>
2017	\$ 62,508	\$ 50,004	\$ 50,004	\$ 162,516
2018	-	50,000	50,000	100,000
2019	-	50,000	50,000	100,000
Total	<u>\$ 62,508</u>	<u>\$ 150,004</u>	<u>\$ 150,004</u>	<u>\$ 362,516</u>

Notes Payable

The Foundation LLC (a related party) entered into a 5-year mortgage note agreement for the amount of \$3,750,000 with the Low Income Investment Fund (LIIF).

The Foundation LLC (a related party) entered into a 3-year note agreement for the amount of \$300,000 with the Robert A. Bothman Construction.

The annual notes payable payments outstanding for are as follows:

Year Ended <u>June 30,</u>	Foundation <u>LLC</u>
2017	\$ 145,817
2018	<u>3,588,909</u>
Total	<u>\$ 3,734,726</u>

ACE CHARTER SCHOOL

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

NOTE 5: LINE OF CREDIT

Focus Bank – Line of Credit

The School entered into a revolving line of credit agreement with Focus Business Bank. The applicable interest rate is the Prime Rate plus one percent with a minimum total interest rate of 5.5 percent.

Total availability under the line of credit was \$1,000,000. As of June 30, 2016, there was no outstanding balance. The line of credit is subject to reporting requirements and covenants customary to this type of credit facility.

NOTE 6: 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.

ACE CHARTER SCHOOL

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

NOTE 6: EMPLOYEE RETIREMENT

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.

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	\$ 166,390	100%
2015	\$ 278,390	100%
2016	\$ 489,625	100%

Defined Contribution Plan

The School offers an Internal Revenue Code Section 403(b) retirement plan to each of its qualifying employees. Employer matching contributions are made at the rate equal to 50 percent of the first two percent of elective deferrals for each employee who is eligible for employer contributions. Additionally, the employer may elect to make a discretionary contribution for each qualifying employee for each plan year. The amount of employer contributions for the year ended June 30, 2016 was \$63,034.

NOTE 7: OPERATING LEASES

ACE Empower Academy entered into a facility lease with the Foundation LLC for school facilities. Rent expense for the year ended June 30, 2016 was \$310,842.

The Foundation LLC entered into a ground lease extension for school facilities with Alum Rock Unified School District. Rent expense for the year ended June 30, 2016 was \$135,000.

ACE CHARTER SCHOOL

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

NOTE 7: OPERATING LEASES

Future minimum lease payments are as follows:

Year Ended <u>June 30,</u>	<u>ACE Empower Academy</u>	<u>Foundation LLC</u>
2017	\$ 310,842	\$ 144,225
2018	310,842	146,070
2019	310,842	146,070
2020	310,842	147,656
2021	310,842	148,838
Thereafter	<u>2,145,162</u>	<u>3,781,498</u>
Total	<u>\$ 3,699,372</u>	<u>\$4,514,357</u>

NOTE 8: CMO FEES

In consideration for the provision of administration and management services each active charter school pays a monthly “Services Fee” equal to between 16% and 10% of certain local, state and federal revenues of School as well as fundraising conducted by the CMO. The amount of the services fee is phased down over the start-up years of operation as follows:

Year 1 – 16%, Year 2 – 14%, Year 3 – 12%, and Year 4+ – 10%

ACE Empower Academy paid a Service Fee of \$385,127 for the year ended June 30, 2016.

ACE Charter High paid a Service Fee of \$327,363 for the year ended June 30, 2016.

ACE Franklin McKinley paid a Service Fee of \$380,713 for the year ended June 30, 2016.

ACE Alum Rock paid a Service Fee of \$219,774 for the year ended June 30, 2016.

ACE Inspire paid a Service Fee of \$257,888 for the year ended June 30, 2016.

NOTE 9: CONTINGENCIES

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

ACE CHARTER SCHOOL

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

ACE Charter School (the School) is a California non-profit public benefit corporation and is organized to manage and operate public charter schools.

The School began serving students at ACE Empower Academy (formerly ACE Charter School Middle) in August 2008. ACE Empower Academy (#0972) is sponsored by the Santa Clara County Board of Education. The current charter expires June 30, 2021.

The School began serving students at ACE Charter High in August 2012. ACE Charter High (#1387) is sponsored by the East Side Union High School District. The current charter expires June 30, 2017.

The School began serving students at ACE Franklin McKinley in August 2014. ACE Franklin McKinley (#1545) is sponsored by the Franklin-McKinley Elementary School District. The current charter expires June 30, 2018.

The School began serving students at ACE Alum Rock in August 2014. ACE Alum Rock (#1544) is sponsored by the Alum Rock Union Elementary School District. The current charter expires June 30, 2018.

The School began serving students at ACE Inspire Academy in August 2015. ACE Inspire Academy (#1546) is sponsored by the San Jose Unified School District. The current charter expires June 30, 2018.

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

ACE CHARTER SCHOOL

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

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

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires (3 year term)</u>
Tamara Alvarado	President	2016
Gary Rummelhoff	Treasurer	2016
Dr. Linda Murray	Secretary	2016
Elizabeth Alvarez	Member	2016
Florina Gallegos	Member	2016
Tania Wilcox	Member	2017
Dr. Mary Lairon	Member	2015
Manou Mobedshahi	Member	2016
Susan Hammer	Member	2016

ADMINISTRATORS

Greg Lippman	Executive Director
Shawn Gerth	Managing Director of Academic Operations and Vision
Michael O'Farrell	Managing Director of Business Operations and Strategy
Nath Mahalingam	Director of Finance

ACE CHARTER SCHOOL

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

	<u>Instructional Minutes</u>		<u>Instructional Days</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>		
ACE Empower Academy:				
Grade 5	54,000	63,813	180	In compliance
Grade 6	54,000	63,813	180	In compliance
Grade 7	54,000	63,813	180	In compliance
Grade 8	54,000	63,813	180	In compliance
ACE Charter High School:				
Grade 9	64,800	68,100	180	In compliance
Grade 10	64,800	68,100	180	In compliance
Grade 11	64,800	68,100	180	In compliance
Grade 12	64,800	68,100	180	In compliance
ACE Franklin McKinley:				
Grade 5	54,000	71,440	180	In compliance
Grade 6	54,000	71,440	180	In compliance
Grade 7	54,000	71,440	180	In compliance
Grade 8	54,000	71,440	180	In compliance
ACE Alum Rock:				
Grade 6	54,000	65,200	180	In compliance
Grade 7	54,000	65,200	180	In compliance
Grade 8	54,000	65,200	180	In compliance
ACE Inspire Academy:				
Grade 5	54,000	61,050	180	In compliance
Grade 6	54,000	61,050	180	In compliance

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

ACE CHARTER SCHOOL

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

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom</u>		<u>Classroom</u>	
	<u>Based</u>	<u>Total</u>	<u>Based</u>	<u>Total</u>
ACE Empower Academy:				
Grades 4-6	140.20	140.34	140.61	140.74
Grades 7-8	<u>191.30</u>	<u>191.54</u>	<u>190.88</u>	<u>191.08</u>
ADA Totals	<u><u>331.50</u></u>	<u><u>331.88</u></u>	<u><u>331.49</u></u>	<u><u>331.82</u></u>
ACE Charter High:				
Grades 9-12	<u>245.85</u>	<u>245.97</u>	<u>245.40</u>	<u>245.49</u>
ADA Totals	<u><u>245.85</u></u>	<u><u>245.97</u></u>	<u><u>245.40</u></u>	<u><u>245.49</u></u>
ACE Franklin McKinley:				
Grades 4-6	107.87	107.87	105.59	105.68
Grades 7-8	<u>102.20</u>	<u>102.28</u>	<u>101.90</u>	<u>101.96</u>
ADA Totals	<u><u>210.07</u></u>	<u><u>210.15</u></u>	<u><u>207.49</u></u>	<u><u>207.64</u></u>
ACE Alum Rock:				
Grades 4-6	24.89	24.89	24.85	24.85
Grades 7-8	<u>63.60</u>	<u>63.60</u>	<u>62.77</u>	<u>62.77</u>
ADA Totals	<u><u>88.49</u></u>	<u><u>88.49</u></u>	<u><u>87.62</u></u>	<u><u>87.62</u></u>
ACE San Jose:				
Grades 4-6	<u>105.31</u>	<u>105.36</u>	<u>105.36</u>	<u>105.42</u>
ADA Totals	<u><u>105.31</u></u>	<u><u>105.36</u></u>	<u><u>105.36</u></u>	<u><u>105.42</u></u>

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

ACE CHARTER SCHOOL

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS**

For the Year Ended June 30, 2016

	<u>ACE Empower Academy</u>	<u>ACE Charter High</u>	<u>ACE Franklin McKinley</u>	<u>ACE Alum Rock</u>	<u>ACE Inspire Academy</u>
June 30, 2016 Annual Financial Report Fund Balances (Net Assets)	\$ 887,277	\$ 504,289	\$ 91,009	\$ 32,632	\$ 4,667
Adjustments and Reclassifications:					
Increasing (Decreasing) the Fund Balance (Net Assets):					
Accounts payable and accrued liabilities	-	(20,515)	-	-	-
Net Adjustments and Reclassifications	-	(20,515)	-	-	-
June 30, 2016 Audited Financial Statement Fund Balances (Net Assets)	\$ 887,277	\$ 483,774	\$ 91,009	\$ 32,632	\$ 4,667

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

ACE CHARTER SCHOOL

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

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>ACE Empower Academy</u>	<u>ACE Charter High</u>	<u>ACE Franklin McKinley</u>	<u>ACE Alum Rock</u>	<u>ACE Inspire Academy</u>	<u>Total</u>
<i>U.S. Department of Education:</i>								
Pass Through Program From								
California Department of Education:								
No Child Left Behind Act								
Title I, Part A, Basic Grants								
Low-Income and Neglected	84.010	14329	\$ 180,194	\$ 101,020	\$ 94,762	\$ 49,787	\$ 42,274	\$ 468,037
Title II, Part A, Teacher Quality	84.367	14341	2,345	1,740	1,292	558	620	6,555
Special Education - IDEA	84.027	13379	50,620	27,691	18,669	8,896	-	105,876
Public Charter Schools Grant Program	84.282A	14941	-	-	99,209	171,473	194,597	465,279
<i>Total U.S Department of Education</i>			<u>233,159</u>	<u>130,451</u>	<u>213,932</u>	<u>230,714</u>	<u>237,491</u>	<u>1,045,747</u>
<i>U.S. Department of Agriculture:</i>								
Pass Through Program From								
California Department of Education:								
Child Nutrition Programs								
	10.555	N/A	142,887	-	-	31,789	54,311	228,987
<i>Total U.S Department of Agriculture</i>			<u>142,887</u>	<u>-</u>	<u>-</u>	<u>31,789</u>	<u>54,311</u>	<u>228,987</u>
Total Federal Expenditures			<u>\$ 376,046</u>	<u>\$ 130,451</u>	<u>\$ 213,932</u>	<u>\$ 262,503</u>	<u>\$ 291,802</u>	<u>\$ 1,274,734</u>

N/A - Pass-through entity number not readily available or not applicable.

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

ACE CHARTER SCHOOL

**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 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 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The School has elected to use a rate other than the 10-percent de minimus indirect cost rate allowed under Uniform Guidance.



**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
ACE Charter School
San Jose, 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 ACE Charter School (the School), a nonprofit California 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, the related notes to the financial statements, and have issued our report thereon dated November 10, 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.

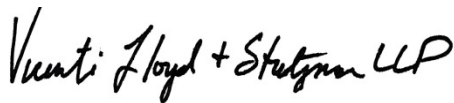
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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
Glendora, CA
November 10, 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
ACE Charter School
San Jose, CA

Report on Compliance for Each Major Federal Program

We have audited the compliance of ACE Charter School (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 program.

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

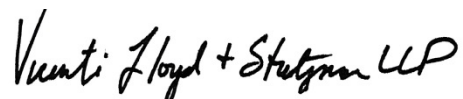
Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types 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
November 10, 2016

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
 ACE Charter School
 San Jose, CA

We have audited ACE Charter School’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 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 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	Not applicable
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

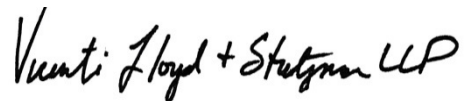
¹ We did not perform testing for independent study because the independent study ADA was under the level which requires testing.

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

November 3, 2015

ACE CHARTER SCHOOL

**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?	_____	<i>Yes</i>	<u> X </u>	<i>No</i>
Significant deficiency(ies) identified?	_____	<i>Yes</i>	<u> X </u>	<i>None Reported</i>

Noncompliance material to financial statements noted?	_____	<i>Yes</i>	<u> X </u>	<i>No</i>
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Federal Awards

Internal control over major federal awards:

Material weakness(es) identified?	_____	<i>Yes</i>	<u> X </u>	<i>No</i>
Significant deficiency(ies) identified?	_____	<i>Yes</i>	<u> X </u>	<i>None Reported</i>

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)?	_____	<i>Yes</i>	<u> X </u>	<i>No</i>
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Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.282A	Public Charter Schools Grant Program

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

Auditee qualified as low-risk auditee?	<u> X </u>	<i>Yes</i>	_____	<i>No</i>
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ACE CHARTER SCHOOL

**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 June 30, 2016.

ACE CHARTER SCHOOL

**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, federal awards or state awards for the prior year.