

**REVOLUTIONARY EDUCATION AND
LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

Operating:

**REALM Middle School
REALM High School**

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Revolutionary Education and Learning Movement (REALM) Charter Schools
Berkeley, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Revolutionary Education and Learning Movement (REALM) Charter Schools (the Schools), 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 auditors' 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.

Board of Directors
Revolutionary Education and Learning Movement (REALM) Charter Schools

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the Schools 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 Schools' financial statements as a whole. 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.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming the Schools will continue as a going concern. As noted in Note 9 to the financial statements, in the previous year, the School experienced an operating deficit, cash flow difficulties, and did not have adequate cash reserves or accounts receivable to meet its current obligations without obtaining additional financing or funding. The Schools reduced the deficit for the year ended June 30, 2016, but still had an ending deficit net asset balance and required substantial financing to meet its current obligations. These factors cause substantial doubt about the Schools' ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Board of Directors
Revolutionary Education and Learning Movement (REALM) Charter Schools

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2016 on our consideration of the Schools' 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 Schools' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Vicenti, Lloyd & Stutzman LLP". The signature is written in a cursive, flowing style.

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
December 14, 2016

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

**STATEMENT OF FINANCIAL POSITION
June 30, 2016**

	REALM Middle School	REALM High School	Home Office	Intercompany Eliminations	Total
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ -	\$ -	\$ 150,775	\$ -	\$ 150,775
Accounts receivable - federal and state	408,621	471,879	-	-	880,500
Prepaid expenses and other assets	47,382	215	-	-	47,597
Intercompany receivables	-	705,797	576,315	(1,282,112)	-
Total current assets	<u>456,003</u>	<u>1,177,891</u>	<u>727,090</u>	<u>(1,282,112)</u>	<u>1,078,872</u>
LONG-TERM ASSETS:					
Property, plant and equipment, net	<u>877,656</u>	<u>262,879</u>	<u>-</u>	<u>-</u>	<u>1,140,535</u>
Total long-term assets	<u>877,656</u>	<u>262,879</u>	<u>-</u>	<u>-</u>	<u>1,140,535</u>
Total assets	<u>\$ 1,333,659</u>	<u>\$ 1,440,770</u>	<u>\$ 727,090</u>	<u>\$ (1,282,112)</u>	<u>\$ 2,219,407</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 71,390	\$ 146,652	\$ 403,413	\$ -	\$ 621,455
Line of credit	-	-	71,377	-	71,377
Factored receivables liability	482,283	410,017	-	-	892,300
Intercompany payable	1,282,112	-	-	(1,282,112)	-
Notes payable, current portion	<u>643,981</u>	<u>640,455</u>	<u>90,742</u>	<u>-</u>	<u>1,375,178</u>
Total current liabilities	<u>2,479,766</u>	<u>1,197,124</u>	<u>565,532</u>	<u>(1,282,112)</u>	<u>2,960,310</u>
LONG-TERM LIABILITIES:					
Notes payable	<u>-</u>	<u>-</u>	<u>161,558</u>	<u>-</u>	<u>161,558</u>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>161,558</u>	<u>-</u>	<u>161,558</u>
NET ASSETS:					
Unrestricted	(1,221,001)	160,389	-	-	(1,060,612)
Temporarily restricted	<u>74,894</u>	<u>83,257</u>	<u>-</u>	<u>-</u>	<u>158,151</u>
Total net assets	<u>(1,146,107)</u>	<u>243,646</u>	<u>-</u>	<u>-</u>	<u>(902,461)</u>
Total liabilities and net assets	<u>\$ 1,333,659</u>	<u>\$ 1,440,770</u>	<u>\$ 727,090</u>	<u>\$ (1,282,112)</u>	<u>\$ 2,219,407</u>

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

	REALM	REALM	
	<u>Middle School</u>	<u>High School</u>	<u>Total</u>
UNRESTRICTED			
REVENUES:			
State revenue:			
State aid	\$ 1,154,453	\$ 1,868,232	\$ 3,022,685
Other state revenue	606,748	475,785	1,082,533
Federal revenue:			
Grants and entitlements	190,886	184,604	375,490
Local revenue:			
In-lieu property tax revenue	1,110,620	1,251,126	2,361,746
Contributions	90,151	16,229	106,380
Other revenue	85,697	25,581	111,278
Total revenues	<u>3,238,555</u>	<u>3,821,557</u>	<u>7,060,112</u>
Net assets released from restriction	<u>-</u>	<u>-</u>	<u>-</u>
Total unrestricted revenues and net assets released from restriction	<u>3,238,555</u>	<u>3,821,557</u>	<u>7,060,112</u>
EXPENSES:			
Program services	2,832,964	2,563,313	5,396,277
Management and general	<u>732,585</u>	<u>871,486</u>	<u>1,604,071</u>
Total expenses	<u>3,565,549</u>	<u>3,434,799</u>	<u>7,000,348</u>
Change in unrestricted net assets	<u>(326,994)</u>	<u>386,758</u>	<u>59,764</u>
TEMPORARILY RESTRICTED			
Other state revenue	<u>22,438</u>	<u>31,530</u>	<u>53,968</u>
Change in temporarily restricted net assets	<u>22,438</u>	<u>31,530</u>	<u>53,968</u>
Total change in net assets	(304,556)	418,288	113,732
Beginning net assets	<u>(841,551)</u>	<u>(174,642)</u>	<u>(1,016,193)</u>
Ending net assets	<u>\$ (1,146,107)</u>	<u>\$ 243,646</u>	<u>\$ (902,461)</u>

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

	REALM	REALM		
	Middle School	High School	Home Office	Total
CASH FLOWS from OPERATING ACTIVITIES:				
Change in net assets	\$ (304,556)	\$ 418,288	\$ -	\$ 113,732
Adjustments to reconcile change in net assets to net cash flows from operating activities				
Depreciation	162,570	45,499	-	208,069
Change in operating assets:				
Accounts receivable - federal and state	(70,364)	(211,390)	-	(281,754)
Intercompany receivables	-	66,830	(576,315)	(509,485)
Prepaid expenses and other assets	(45,150)	12,232	-	(32,918)
Change in operating liabilities:				
Intercompany payable	509,485	-	-	509,485
Accounts payable and accrued liabilities	(297,267)	(499,749)	403,413	(393,603)
Net cash flows from operating activities	<u>(45,282)</u>	<u>(168,290)</u>	<u>(172,902)</u>	<u>(386,474)</u>
CASH FLOWS from FINANCING ACTIVITIES:				
Proceeds from notes payable	716,411	650,260		1,366,671
Repayments of factored receivables	(234,128)	(240,243)	-	(474,371)
Proceeds (repayments) of debt and line of credit	(437,001)	(443,116)	323,677	(556,440)
Net cash flows from financing activities	<u>45,282</u>	<u>(33,099)</u>	<u>323,677</u>	<u>335,860</u>
Net change in cash and cash equivalents	-	(201,389)	150,775	(50,614)
Cash and cash equivalents at the beginning of the year	<u>-</u>	<u>201,389</u>	<u>-</u>	<u>201,389</u>
Cash and cash equivalents at the end of the year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 150,775</u></u>	<u><u>\$ 150,775</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest during the fiscal year	<u><u>\$ 20,499</u></u>	<u><u>\$ 11,085</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 31,584</u></u>

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016**

	Program Services	Management and General	Total Expenses
Salaries and wages	\$ 3,102,649	\$ 895,836	\$ 3,998,485
Pension expense	266,485	76,957	343,442
Other employee benefits	251,126	99,069	350,195
Payroll taxes	129,671	10,827	140,498
Management fees	54,012	-	54,012
Legal expenses	30,797	4,258	35,055
Accounting expenses	10,458	-	10,458
Instructional materials	235,059	13,194	248,253
Other fees for services	158,595	238,565	397,160
Advertising and promotion expenses	29,902	-	29,902
Office expenses	364,359	14,244	378,603
Occupancy expenses	450,594	94,988	545,582
Travel expenses	7,982	-	7,982
Conference and meeting expenses	36,631	3,676	40,307
Interest expense	27,146	4,437	31,583
Depreciation expense	127,380	80,689	208,069
Insurance expense	34,833	4,227	39,060
Other expenses	78,598	63,104	141,702
	<u>\$ 5,396,277</u>	<u>\$ 1,604,071</u>	<u>\$ 7,000,348</u>

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Revolutionary Education and Learning Movement (REALM) Charter Schools (the Schools) is a California non-profit public benefit corporation and is organized to manage and operate public charter schools. REALM Middle School and REALM High School began serving students in August 2011 and are sponsored by the Berkeley Unified School District (the District).

The charter schools are funded principally through State of California public education monies received through the California Department of Education and the District.

The charters may be revoked by the District for material violations of the charters, failure to meet pupil outcomes identified in the charters, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Cash and Cash Equivalents – The Schools define 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 Schools' 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 of America as prescribed by the Financial Accounting Standards Board.

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes – The Schools are 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 Schools are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the Schools.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The Schools have \$158,151 in temporarily restricted net assets consisting of unspent Clean Energy and Educator Effectiveness funding.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the Schools. The Schools do 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. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

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 Alameda County (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 Schools 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.

Revenue Recognition – Amounts received from the California Department of Education (CDE) are recognized as revenue by the Schools 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.

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

**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 Schools 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 Schools 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.

Evaluation of Subsequent Events – The Schools have evaluated subsequent events through December 14, 2016, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Schools' deposits may not be returned to it. The Schools maintain bank accounts with one institution, certain of which are interest bearing. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2016, none of the Schools' bank balances were exposed to any such credit risk.

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. The Schools capitalized all expenditures for land, buildings and equipment in excess of \$5,000. Depreciation expense was \$208,069 for the year ended June 30, 2016.

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

Land	\$ 1,760,098
Leasehold improvements	86,444
Less accumulated depreciation	<u>(706,007)</u>
Property, plant and equipment, net	<u><u>\$ 1,140,535</u></u>

NOTE 4: LONG-TERM DEBT

Notes Payable:

In September 2011, the Schools obtained a promissory note of \$309,968 from Kaufman Constructions, Inc. The note carries annual interest rate of 8.5% and requires monthly payments of \$3,843. The note matures in September 2021. The note balance as of June 30, 2016 was \$192,300.

In October 2013, the Schools obtained a loan of \$60,000 from Fred Huxman. The loan has a term of up to 10 years and carries no interest rate. The loan balance as of June 30, 2016 was \$60,000.

In February 2016, the Schools obtained a promissory note of \$1,387,363 from Charter Asset Management Fund, Inc. The note carries annual interest rate of 10% and requires monthly payments of \$200,000. The note matures in March 2017. The note balance as of June 30, 2016 was \$1,284,446.

The future maturities of long-term debt for the Schools are as follows:

Year Ended June 30,	REALM Middle School	REALM High School	Home Office	Total
2017	\$ 643,981	\$ 640,455	\$ 90,742	\$ 1,375,178
2018	-	-	33,460	33,460
2019	-	-	36,417	36,417
2020	-	-	39,636	39,636
2021	-	-	43,140	43,140
Thereafter	-	-	8,905	8,905
Total	<u><u>\$ 643,981</u></u>	<u><u>\$ 640,455</u></u>	<u><u>\$ 252,300</u></u>	<u><u>\$ 1,536,736</u></u>

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

NOTE 5: FACTORED RECEIVABLES

The Schools entered into multiple agreements to factor attendance and grant receivables. The amount of factored receivables due at June 30, 2016 was \$1,284,436.

NOTE 6: LINE OF CREDIT

The Schools has a revolving line of credit with Wells Fargo for \$100,000 with an annual interest rate of 10.25%. There was a balance of \$71,367 for the year ended June 30, 2016.

NOTE 7: 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 Schools chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Schools have 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.

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

NOTE 7: 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 Schools' contributions to STRS for the past three years are as follows:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2014	\$ 168,199	100%
2015	\$ 263,851	100%
2016	\$ 343,442	100%

NOTE 8: OPERATING LEASES

The Schools entered into a lease agreement for property in Berkeley, California. The lease commenced in September 2011 and expires in August, 2021 with current monthly payments of \$24,480 at an increasing monthly base rate each year. Lease expense under the agreement for the year ended June 30, 2016 was \$438,818.

Future minimum lease payments are as follows:

<u>Year Ended June 30,</u>	<u>REALM Middle School</u>	<u>REALM High School</u>	<u>Total</u>
2016	\$ 203,040	\$ 203,040	\$ 406,080
2017	216,000	216,000	432,000
2018	227,808	227,808	455,616
2019	239,904	239,904	479,808
2020	256,320	256,320	512,640
Thereafter	319,680	319,680	639,360
Total	<u>\$ 1,462,752</u>	<u>\$ 1,462,752</u>	<u>\$ 2,925,504</u>

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

NOTE 9: CONTINGENCIES

The Schools have 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.

NOTE 10: MANAGEMENT PLANS

The Management of the Schools have noted a negative change in unrestricted net assets on the Statement of Activities.

Management has taken steps to ensure that net assets are positive by the end of the next fiscal year. The following are steps and factors that Management has identified:

- Major staffing cuts over the next two years in order to balance the budget and establish a 3% reserve.
- To make major cuts without impacting the quality of the teaching and learning as promised under the charter.
- To submit monthly financial budgets to our Authorizer, Berkeley Unified School District (BUSD) in order to maintain a correct and accurate course of action.
- Apply for additional local, regional, and statewide multi-year grants.

The ability of the School to continue as a going concern is dependent on the success of these actions. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Schools be unable to continue as a going concern.

SUPPLEMENTARY INFORMATION

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

Revolutionary Education and Learning Movement (REALM) Charter Schools (the Schools) was established in August 2011, when it was granted its charter through Berkeley Unified School District (the District) and its charter school status from the California Department of Education. The charter may be revoked by the District for material violations of the charter, failure to meet or make progress toward student outcomes, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

REALM Middle Charter School number is: 1254

REALM High Charter School number is: 1255

The Board of Directors and the Administrator for June 30, 2016 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires – 2 years</u>
Jabari Mahiri	Board Chair	July 2018
Victor Diaz	President	July 2018
Theo Oliphant	Member	July 2017
Tracy Shear	Treasurer	July 2018

ADMINISTRATOR

Victor Diaz	Chief Executive Officer and Principal
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**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

	<u>Instructional Minutes</u>		<u>Instructional</u>	
	<u>Requirement</u>	<u>Actual</u>	<u>Days</u>	<u>Status</u>
REALM Middle School:				
Grade 6	54,000	67,610	180	In compliance
Grade 7	54,000	67,610	180	In compliance
Grade 8	54,000	67,610	180	In compliance
REALM High School:				
Grade 9	64,800	64,830	180	In compliance
Grade 10	64,800	64,830	180	In compliance
Grade 11	64,800	64,830	180	In compliance
Grade 12	64,800	64,830	180	In compliance

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

	<u>Second Period Report</u>		<u>Annual Report</u>	
	Classroom		Classroom	
	<u>Based</u>	<u>Total</u>	<u>Based</u>	<u>Total</u>
REALM Middle School:				
Grades 4-6	81.76	81.76	80.97	80.97
Grades 7-8	<u>207.91</u>	<u>207.91</u>	<u>209.00</u>	<u>209.00</u>
Subtotal	<u>289.67</u>	<u>289.67</u>	<u>289.97</u>	<u>289.97</u>
REALM High School:				
Grades 9-12	<u>341.15</u>	<u>341.15</u>	<u>336.12</u>	<u>336.12</u>
ADA Totals	<u><u>630.82</u></u>	<u><u>630.82</u></u>	<u><u>626.09</u></u>	<u><u>626.09</u></u>

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

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

	<u>REALM Middle School</u>	<u>REALM High School</u>
June 30, 2016 Annual Financial Report		
Fund Balances (Net Assets)	\$ (1,146,911)	\$ 244,727
Adjustments and Reclassifications:		
Increasing (Decreasing) the Fund Balance (Net Assets):		
Cash and cash equivalents	202,905	353,680
Accounts receivable - other	-	(1,296)
Prepaid expenses and other assets	-	215
Accounts payable and accrued liabilities	211,295	(107,427)
Notes payable	<u>(413,396)</u>	<u>(246,253)</u>
Net Adjustments and Reclassifications	<u>804</u>	<u>(1,081)</u>
June 30, 2016 Audited Financial Statement		
Fund Balances (Net Assets)	<u><u>\$ (1,146,107)</u></u>	<u><u>\$ 243,646</u></u>

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

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

**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 Schools and whether the Schools complied with the provisions of the Education Code.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the Schools. 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 Schools as reported on the Annual Financial Report form to the audited financial statements.

**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
Revolutionary Education and Learning Movement (REALM) Charter Schools
Berkeley, 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 Revolutionary Education and Learning Movement (REALM) Charter Schools (the Schools), 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 December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Schools' 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 Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Schools' 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 Schools' 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
December 14, 2016

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Revolutionary Education and Learning Movement (REALM) Charter Schools
Berkeley, CA

We have audited REALM Charter Schools's (the Schools) 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 Schools' 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 Schools' 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	No ¹
California Clean Energy Jobs Act	No ²
After School Education and Safety Program	Not applicable
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	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Yes

¹ The Schools had no expenditures of Educator Effectiveness funding during the year ended June 30, 2016.

² The Schools had no expenditures of California Clean Energy Jobs Act funding during the year ended June 30, 2016.

Opinion on State Compliance

In our opinion, the Schools 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 14, 2016

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

**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 twelve categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter 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 or state awards for June 30, 2016.

**REVOLUTIONARY EDUCATION AND LEARNING MOVEMENT (REALM)
CHARTER SCHOOLS**

**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 state awards for the prior year.