



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

February 12, 2014

Christine Kuglen, Director
Innovations Academy
10380 Spring Canyon Road
San Diego, CA 92131

Dear Ms. Kuglen:

We would again like to thank you for the opportunity to submit a multi-year proposal for the annual audit of the financial statements of Innovations Academy for the years ending June 30, 2014, 2015, and 2016.

We will audit the statement(s) of financial position of Innovations Academy as of June 30, 2014, 2015, and 2016, and the related statements of activities, and cash flows for the years then ended. Also, the following supplementary information accompanying the financial statements will be subjected to the auditing procedures applied in our 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, in accordance with auditing standards generally accepted in the United States of America, and our auditor's report will provide an opinion on it in relation to the financial statements as a whole:

1. Schedule of Average Daily Attendance
2. Schedule of Instructional Time, if applicable

We will also prepare the Organization's federal and state information returns for the years ended June 30, 2014, 2015, and 2016.

Audit Objective

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion is other than unmodified (unqualified), we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

INNOVATIONS ACADEMY ENGAGEMENT LETTER

Audit Procedures

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from the Organization's attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as an auditor is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

Management Responsibilities

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**INNOVATIONS ACADEMY
ENGAGEMENT LETTER**

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring the Organization complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

Our fees for the services will be based on the actual time spent at our standard hourly rates and out-of-pocket costs. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our professional fee for the audit of the financial statements is:

1. \$9,270 for the period July 1, 2013 through June 30, 2014 (ONE YEAR CONTRACT); or,
2. \$8,430 per year for the periods July 1, 2013 through June 30, 2014 and July 1, 2014 through June 30, 2015 (TWO YEAR CONTRACT); or,
3. \$7,860 per year for the periods July 1, 2013 through June 30, 2014, July 1, 2014 through June 30, 2015, and July 1, 2015 through June 30, 2016 (THREE YEAR CONTRACT).

The fee estimate is based on anticipated cooperation from your personnel and the assumption that all records needed to complete the audit are at the school site, and that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

For multi-year contracts, if significant additional time is required to perform the audit of the contract year due to unforeseen circumstance, such as a substantial increase in Average Daily Attendance or if applicable, additional school(s) adds to the region, we will discuss with you whether a new fee estimate is warranted, before we incur the additional costs.

The billing will be staggered for three different payments in the amount of:

- 1/3 of the total contract amount upon the start of preliminary audit fieldwork
- 1/3 of the total contract amount upon the start of financial audit fieldwork.
- 1/3 of the total contract amount upon release of final audit report.

Should the Organization request our firm to prepare the federal and California tax exempt return for the year under audit, our fee for the preparation of these returns will be \$995 per year.

We appreciate the opportunity to be of service to Innovations Academy and believe this letter accurately summarizes the significant terms of our engagement. **If you have any questions regarding this engagement letter, please do not hesitate to contact us.**

**INNOVATIONS ACADEMY
ENGAGEMENT LETTER**

To indicate your approval of the engagement letter, please sign the original copy of this letter in the space provided and return it to our office.

Sincerely,

James A. Rotherham, CPA

James A. Rotherham, CPA
CEO & Managing Partner
Hosaka, Rotherham & Company

JAR:dl

RESPONSE:

This letter correctly sets forth the understanding of Innovations Academy

ENGAGEMENT ACCEPTED - ONE YEAR CONTRACT

By: _____

Title: _____

Date: _____

ENGAGEMENT ACCEPTED - TWO YEAR CONTRACT

By: _____

Title: _____

Date: _____

ENGAGEMENT ACCEPTED - THREE YEAR CONTRACT

By:  _____

Title: Director _____

Date: 2/14/14 _____