

PALISADES CHARTER HIGH SCHOOL

**Audited Financial Statements
for the Year Ended
June 30, 2005**

PALISADES CHARTER HIGH SCHOOL

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June 30, 2005

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Chairman

ROYCE A. STUTZMAN

Partners

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palisades Charter High School
15777 Bowdoin St
Pacific Palisades, CA 90272-3523

We have audited the statement of financial position of Palisades Charter High School (a California public charter school) (the School) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements described above present fairly, in all material respects, the financial position of the School as of June 30, 2005, and the changes in its net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 7, 2005 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 this 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* and should be considered in assessing the results of our audit.

Board of Directors
Palisades Charter High School

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of instructional minutes and average daily attendance on pages 15-16 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


VICENTI, LLOYD & STUTZMAN LLP

October 7, 2005

PALISADES CHARTER HIGH SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

ASSETS:

Cash and cash equivalents	\$ 4,406,187
Accounts receivable	1,157,614
Prepaid expenses	<u>74,475</u>
Total current assets	<u>\$ 5,638,276</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable	\$ 183,378
Accrued liabilities	2,717,583
Deferred revenue	11,000
Amounts held for others	62,381
Due to sponsoring district	<u>285,182</u>
Total current liabilities	<u>3,259,524</u>

NET ASSETS:

Unrestricted	<u>2,378,752</u>
Total net assets	<u>2,378,752</u>
Total liabilities and net assets	<u>\$ 5,638,276</u>

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

PALISADES CHARTER HIGH SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

REVENUES:

Block grant - general purpose	\$10,969,845
Block grant - categorical	759,739
Property tax revenue	3,125,548
Federal revenue	381,999
State revenue	2,262,711
Other revenue	404,643
Interest revenue	<u>90,195</u>
Total unrestricted revenues	<u>17,994,680</u>

EXPENSES:

Program services	13,368,624
Support services	<u>4,240,351</u>
Total expenses	<u>17,608,975</u>
Increase in unrestricted net assets	385,705
Beginning unrestricted net assets	<u>1,993,047</u>
Ending unrestricted net assets	<u>\$ 2,378,752</u>

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

PALISADES CHARTER HIGH SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

CASH FLOWS from OPERATING ACTIVITIES:

Change in net assets \$ 385,705

Adjustments to reconcile change in net assets to net cash provided by operating activities:

Decrease (increase) in operating assets:

Accounts receivable 19,683

Prepaid expenses 32,230

Increase (decrease) in operating liabilities:

Accounts payable 168,539

Accrued liabilities 1,163,166

Deferred revenue 6,955

Amounts held for others (6,952)

Due to sponsoring district (266,426)

Net cash provided by operating activities 1,502,900

CASH FLOWS from INVESTING ACTIVITIES:

Proceeds from sale and maturities of investments 646,097

Net cash provided by investing activities 646,097

Net increase in cash and cash equivalents 2,148,997

Cash and cash equivalents at the beginning of the year 2,257,190

Cash and cash equivalents at the end of the year \$ 4,406,187

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

PALISADES CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities - Palisades Charter High School (the School) is a California public charter school, organized to educate students by developing their skills and talents to help them make a positive contribution to society. A curriculum and instructional program have been created that will develop the values, skills and knowledge that each student needs for his or her future success in a technological environment and in a multicultural society. The School is funded principally through State of California public education monies received through the California Department of Education and the Los Angeles Unified School District (LAUSD). The School pays LAUSD for its actual costs of supervisory oversight up to 3% of revenues.

Net Asset Classes - The School adopted statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-for-Profit Organizations." Under SFAS No. 117, 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 consist of the following:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the organization.
- 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.

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 six 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 and liabilities and disclosure. 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.

PALISADES CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Functional Allocation of Expenses - The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supportive services benefited.

Contributions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor as required by SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Amounts received that are designated for specific use in future periods are reported as temporarily restricted. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets for expenditure.

Land, Buildings and Equipment - The School's policy is to record land, buildings and equipment at cost if purchased or at estimated fair market value if donated. Depreciation of buildings and equipment is to be calculated on a straight-line basis over the estimated useful lives of the asset. The School would capitalize all expenditures for land, buildings and equipment in excess of \$5,000.

Income Taxes - The School is a California Non-Profit Public Benefit Corporation and has applied for non-profit entity exemption 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.

NOTE 2 - CONCENTRATION OF CREDIT RISK:

The School maintains bank accounts and certificates of deposit (CDs) with one institution. Accounts and CDs at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2005 deposits in excess of the FDIC limit amounted to \$202,469.

The School also maintains cash in the Los Angeles County Treasury. The County pools these funds with those of other educational organizations in the county and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly and any investment losses are proportionately shared by all participants in the pool. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The funds maintained by the County are either secured by federal depository insurance or collateralized.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable consists of funds due from the State of California, therefore no provisions for uncollectible accounts were recorded.

PALISADES CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 - EMPLOYEE RETIREMENT:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

In fiscal year 2003-2004 the School transferred from using LAUSD for all of its payroll services to using an outside payroll service. The School currently contributes directly through the Los Angeles County Office of Education (LACOE) for employee's retirement programs. The School has continued to accumulate and set aside a liability for these contributions. The accrued liability related to STRS and PERS contributions was \$1,447,150 at June 30, 2005.

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

The School's certificated employees participate in STRS. The School reports all applicable information to STRS through LACOE. The School is required to contribute 8.25% of annual eligible payroll for active plan members.

PALISADES CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 - EMPLOYEE RETIREMENT: (continued)

Public Employees' Retirement System (PERS)

Plan Description

The School contributes to the School Employer Pool under PERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. PERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

The School's classified employees participate in PERS. The School will report all applicable information to PERS through the LACOE. The School is required to contribute 9.952% of annual payroll for active plan members.

Contributions to STRS and PERS

The School's contributions to STRS and PERS for each of the last two fiscal years are as follows:

Year Ended June 30	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2004	\$589,499	100%	\$ 91,413	100%
2005	\$692,092	100%	\$145,954	100%

NOTE 5 - CONTINGENT LIABILITY:

Currently, the School is negotiating with LAUSD and has identified a potential liability regarding facility fees. The School's Net Assets as of June 30, 2005 are considered sufficient to offset any potential fees that will be incurred.

SUPPLEMENTARY INFORMATION



**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
Palisades Charter High School
15777 Bowdoin St
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We have audited the financial statements of Palisades Charter High School as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palisades Charter High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

**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***

(Continued)

This report is intended solely for the information of the Board, management, Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.


VICENTI, LLOYD & STUTZMAN LLP

October 7, 2005



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REPORT ON STATE COMPLIANCE

Board of Directors
 Palisades Charter High School
 15777 Bowdoin St
 Pacific Palisades, CA 90272-3523

We have audited the financial statements of Palisades Charter High School as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the U. S. General Accounting Office, and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Palisades Charter High School's management is responsible for Palisades Charter High School's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine Palisades Charter High School's compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Yes
Kindergarten continuation	3	Not applicable
Independent study	22	Not applicable
Continuation education	10	Not applicable
Adult education	9	Not applicable
Regional occupational center/programs	6	Not applicable

REPORT ON STATE COMPLIANCE

(Continued)

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Instructional time and staff development reform program	7	Not applicable
Incentives for longer instructional day:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
GANN limit calculation	1	Not applicable
Early retirement incentive program	4	Not applicable
Community day schools	9	Not applicable
Class size reduction program:		
General requirements	7	Not applicable
Option 1	3	Not applicable
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
State instructional materials fund:		
General requirements	12	Yes
Grades K-8 only	1	Not applicable
Grades 9-12 only	1	Yes
Ratios of administrative employees to teachers	1	Not applicable
School Construction Funds:		
School District Bonds	3	Not applicable
State School Facilities Funds	1	Not applicable
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Not applicable
State Lottery Funds (California State Lottery Act of 1984)	2	Not applicable
California School Age Families Education (Cal-Safe) Program	3	Not applicable
School Accountability Report Card	3	Not applicable
Office of Criminal Justice Planning	-	Not applicable

Based on our audit, we found that, for the items tested, Palisades Charter High School complied with the laws and regulations of the state programs referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Palisades Charter High School had not complied with the laws and regulations of state programs and requirements.

REPORT ON STATE COMPLIANCE

(Continued)

This report is intended solely for the information and use of the Board, management, the Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.


VICENTI, LLOYD & STUTZMAN LLP

October 7, 2005

PALISADES CHARTER HIGH SCHOOL

SCHEDULE OF INSTRUCTIONAL MINUTES

For the Year Ended June 30, 2005

	<u>2004-05 Minutes</u>		<u>Number of Days</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>	<u>Traditional Calendar</u>	
Kindergarten	N/A	N/A	N/A	N/A
Grades 1 through 3	N/A	N/A	N/A	N/A
Grades 4 through 8	N/A	N/A	N/A	N/A
Grades 9 through 12	64,800	65,723	176	In Compliance

See notes to the supplementary information.

PALISADES CHARTER HIGH SCHOOL

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2005

	<u>Second</u> <u>Period</u> <u>Report</u>	<u>Annual</u> <u>Report</u>
Grades 9 through 12	<u>2,464.35</u>	<u>2,424.73</u>
ADA Totals	<u>2,464.35</u>	<u>2,424.73</u>

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See notes to the supplementary information.

PALISADES CHARTER HIGH SCHOOL

NOTES TO SUPPLEMENTARY INFORMATION

June 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedule of Instructional Minutes

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

B. Schedule of Average Daily Attendance (ADA)

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 grade levels 9 through 12.