

**PALISADES CHARTER HIGH SCHOOL**

**Audited Financial Statements  
for the Year Ended  
June 30, 2008**

# PALISADES CHARTER HIGH SCHOOL

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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 accompanying statement of financial position of Palisades Charter High School, (the School), a California public charter school, as of June 30, 2008, and the related statement 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. The prior year summarized comparative information has been derived from the School's June 30, 2007 financial statements and, in our report dated November 19, 2007, we expressed an unqualified opinion on those financial statements.

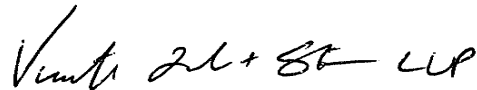
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2008, and the respective 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 November 20, 2008 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

The supplementary schedules on pages 13-15 are presented for the purposes of additional analysis. The accompanying schedule of expenditures of federal awards on page 16 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These schedules 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

November 20, 2008

**PALISADES CHARTER HIGH SCHOOL**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2008**

*(with Comparative Totals for 2007)*

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,979,949	\$ 5,990,695
Certificates of deposit	581,942	430,822
Accounts receivable	1,180,634	1,613,346
Pledge receivable		535,938
Prepaid expenses	19,642	39,662
Other current assets		<u>15,000</u>
Total current assets	<u>7,762,167</u>	<u>8,625,463</u>
<b>LONG-TERM ASSETS:</b>		
Property, plant and equipment (net of accumulated depreciation)	<u>1,947,500</u>	<u>1,198,258</u>
Total long-term assets	<u>1,947,500</u>	<u>1,198,258</u>
Total assets	<u>\$ 9,709,667</u>	<u>\$ 9,823,721</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 292,957	\$ 292,048
Accrued liabilities	1,460,254	2,432,174
Deferred revenue	1,641	10,400
Amounts held for others	99,269	22,464
Due to sponsoring district	242,829	337,480
Loan payable - current portion	<u>166,348</u>	
Total current liabilities	<u>2,263,298</u>	<u>3,094,566</u>
<b>LONG-TERM LIABILITIES:</b>		
Loan payable, net of current portion	<u>429,429</u>	
Total current liabilities	<u>429,429</u>	<u>-</u>
<b>NET ASSETS:</b>		
Unrestricted net assets:		
Board designated (Note 9)	1,568,603	1,500,000
General reserves	<u>3,808,197</u>	<u>3,816,247</u>
Total unrestricted net assets	5,376,800	5,316,247
Temporarily restricted net assets	1,470,140	1,312,908
Permanently restricted net assets	<u>170,000</u>	<u>100,000</u>
Total net assets	<u>7,016,940</u>	<u>6,729,155</u>
Total liabilities and net assets	<u>\$ 9,709,667</u>	<u>\$ 9,823,721</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, 2008**  
*(with Comparative Totals for 2007)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
<b>REVENUES:</b>					
Federal revenue	\$ 558,804	\$ -	\$ -	\$ 558,804	\$ 460,742
Block grant - general purpose	13,955,172			13,955,172	13,734,510
Block grant - categorical	1,324,611			1,324,611	1,185,564
Property tax revenue	3,257,751			3,257,751	2,813,901
State revenue	2,717,038			2,717,038	3,073,994
Contributions		50,000	70,000	120,000	467,192
Other revenue	290,002	1,071,155		1,361,157	645,708
Interest revenue	278,688	37,757		316,445	299,174
Net assets released from restrictions	1,001,680	(1,001,680)		-	-
<b>Total revenues</b>	<u>23,383,746</u>	<u>157,232</u>	<u>70,000</u>	<u>23,610,978</u>	<u>22,220,043</u>
<b>EXPENSES:</b>					
Program services	16,473,687			16,473,687	13,934,393
Support services	6,849,506			6,849,506	6,464,934
<b>Total expenses</b>	<u>23,323,193</u>	<u>-</u>	<u>-</u>	<u>23,323,193</u>	<u>20,399,327</u>
Increase in net assets	60,553	157,232	70,000	287,785	2,281,458
Net assets at beginning of year	5,316,247	1,312,908	100,000	6,729,155	4,447,697
<b>Net assets at end of year</b>	<u>\$ 5,376,800</u>	<u>\$ 1,470,140</u>	<u>\$ 170,000</u>	<u>\$ 7,016,940</u>	<u>\$ 6,729,155</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, 2008**  
*(with Comparative Totals for 2007)*

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS from OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 287,785	\$ 2,281,458
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	790,747	164,259
Decrease (increase) in operating assets:		
Accounts receivable	432,712	(405,930)
Pledge receivable	535,938	100,000
Prepaid expenses	20,020	11,666
Other current assets	15,000	(15,000)
Increase (decrease) in operating liabilities:		
Accounts payable	909	103,962
Accrued liabilities	(971,920)	(71,893)
Deferred revenue	(8,759)	9,400
Amounts held for others	76,805	(7,699)
Due to sponsoring district	(94,651)	(375,242)
Net cash provided by operating activities	1,084,586	1,794,981
<b>CASH FLOWS from INVESTING ACTIVITIES:</b>		
Purchase of certificates of deposit	(151,120)	(67,576)
Purchase of property, plant, and equipment	(1,539,989)	(1,019,026)
Net cash used by investing activities	(1,691,109)	(1,086,602)
<b>CASH FLOWS from FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	750,000	
Repayment of debt	(154,223)	
Net cash provided by financing activities	595,777	-
Net increase (decrease) in cash and cash equivalents	(10,746)	708,379
Cash and cash equivalents at the beginning of the year	5,990,695	5,282,316
Cash and cash equivalents at the end of the year	\$ 5,979,949	\$ 5,990,695
Interest paid during the fiscal year	\$ 54,938	\$ -

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

# PALISADES CHARTER HIGH SCHOOL

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

### 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 has 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.

The Charter was granted by California Department of Education and the Los Angeles Unified School District (LAUSD) on July 1st, 2003.

The Charter School number authorized by the State: 037

The Board of Directors and the Ex-officio members for the fiscal year ended June 30, 2008 were as follows:

#### BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Amy Dresser Held	Executive Director	Indefinite
Darcy Stamler	Parent Rep	October 2009
Dave Suarez	Teacher Rep	October 2009
Eileen Savage	Parent Rep	October 2008
James Paleno	Teacher Rep	October 2008
John Riley	Community Rep	October 2008
Michael Rogers	Parent Rep	October 2009
Rene Rodman	Community Rep	October 2009
Steve Klima	Teacher Rep	June 2009
Torino Johnson	Classified Rep	October 2009
Victoria Francis	Community Rep	October 2009

#### EX-OFFICIO MEMBERS

Greg Wood	Chief Business Officer	Indefinite
Marcia Haskin	Academic Principal	Indefinite
James Bourne	Student Rep	June 2008



# PALISADES CHARTER HIGH SCHOOL

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

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

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

**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 School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School currently has the following temporarily restricted net assets:

Track and Field Program	\$ 139,805
Drama Program	1,037
Library Fund	50,000
Pool Project	<u>1,279,298</u>
Total Temporarily Restricted Net Assets	<u>\$1,470,140</u>

- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. As of June 30, 2008, the School has \$170,000 in permanently restricted net assets for Scholarship Endowment.

**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 in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

# PALISADES CHARTER HIGH SCHOOL

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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

*Functional Allocation of Expenses* - The cost of providing the various programs and other activities has 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 calculated 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.

*Income Taxes* - The School is a California Non-Profit Public Benefit Corporation and has applied for non-profit entity exemption from the payment of federal income taxes under Internal Revenue Code Section 501(c)(3) and is exempt from State income taxes under and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes.

*Comparative Totals* - The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2007, from which the information was derived.

### **NOTE 2 - CONCENTRATION OF CREDIT RISK:**

The School maintains bank accounts and certificates of deposit (CDs) with four institutions. Accounts and CDs at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2008 deposits in excess of the FDIC limit amounted to \$2,731,190. Effective October 3, 2008, the FDIC insurance level was increased to \$250,000.

## **PALISADES CHARTER HIGH SCHOOL**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2008**

#### **NOTE 2 - CONCENTRATION OF CREDIT RISK: (continued)**

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.

#### **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).

The School contributes directly through the Los Angeles County Office of Education (LACOE) for employees' retirement programs. The School accumulated and set aside a liability for these contributions. The accrued liability related to STRS and PERS contributions was \$139,489 at June 30, 2008.

#### **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.

# PALISADES CHARTER HIGH SCHOOL

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

### **NOTE 4 - EMPLOYEE RETIREMENT: (continued)**

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.

#### **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 9.306% of annual eligible payroll for active plan members.

#### **Contributions to STRS and PERS**

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

Year Ended June 30	STRS		PERS	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2006	\$738,271	100%	\$152,201	100%
2007	\$785,511	100%	\$148,047	100%
2008	\$748,062	100%	\$191,940	100%

**PALISADES CHARTER HIGH SCHOOL**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008**

**NOTE 4 - EMPLOYEE RETIREMENT: (continued)**

**Post-Retirement Health Benefits**

The current nature of the School's relationship with LAUSD allows for the School's employees to continue receiving post-retirement health benefits through the plan sponsored by LAUSD. LAUSD bills the School for these services at \$319 per month, per employee eligible for benefits active at the School. For the year ended June 30, 2008, the School paid LAUSD \$697,460 for these benefits. On June 30, 2009 the employees can either return to LAUSD, or remain with the School. If the employees return to LAUSD, Palisades has no future commitment relating to their post-retirement health benefits. For the employees that choose to remain, the School intends to assume the responsibility for and continue the benefits by transferring them into a plan sponsored by the School. The School has had an actuarial study to aid in estimating the potential liability associated with assuming the benefits and setting up its own benefit plan. The estimated potential liability associated with the School assuming the post-retirement obligation is approximately \$14.3 million.

**NOTE 5 - CONTINGENT LIABILITY:**

Currently, the School is negotiating with LAUSD and has identified a potential liability regarding facility fees. No accrual has been made for this contingency because the amount is not estimable. The School's net assets as of June 30, 2008 are considered sufficient to offset any potential fees that will be incurred.

**NOTE 6 - PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION:**

As of June 30, 2008 the cost and accumulated depreciation of property, plant and equipment was as follows:

	<u>2008</u>
Building and improvements	\$2,505,147
Equipment	470,261
Accumulated depreciation	<u>(1,027,908)</u>
Total net book value	<u>\$1,947,500</u>

Depreciation expense for the year ended June 30, 2008 was \$790,747.

**PALISADES CHARTER HIGH SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2008**

**NOTE 7 – LOAN PAYABLE:**

As of June 30, 2008, School entered into an agreement with De Lage Landen Public Finance LLC, to lease school equipment. The lease has a one dollar purchase option and requires semi-annual payments of principal and interest in the amount of \$104,580 for the first five payments and \$354,580 for the last payment.

The future minimum principal payments under this agreement is as follow:

<u>Year Ending June 30,</u>	
2009	\$ 166,348
2010	429,429
Total	<u>\$ 595,777</u>

**NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS:**

Net assets released from restrictions for the year ending June 30, 2008 were as follows:

Program services	\$ 814,989
Support services	<u>186,691</u>
Total net assets released from restrictions	<u>\$ 1,001,680</u>

**NOTE 9 - BOARD DESIGNATED UNRESTRICTED NET ASSETS:**

In response to and in anticipation of the post-retirement health benefits described in Note 4, the School has designated \$1,568,603 of the unrestricted net assets to be used to meet the obligation arising from the School setting up its own post-retirement health benefit plan.

**SUPPLEMENTARY INFORMATION**

**PALISADES CHARTER HIGH SCHOOL**

**SCHEDULE OF INSTRUCTIONAL MINUTES**

**For the Year Ended June 30, 2008**

Grade Level	2007-08 Minutes		Number of Days Traditional Calendar	Status
	Requirement	Actual		
Grades 9	64,800	65,132	175	In Compliance
Grade 10	64,800	65,132	175	In Compliance
Grade 11	64,800	65,132	175	In Compliance
Grade 12	64,800	65,132	175	In Compliance

See notes to the supplementary information.



**PALISADES CHARTER HIGH SCHOOL**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**

**For the Year Ended June 30, 2008**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom Based</u>	<u>Total</u>	<u>Classroom Based</u>	<u>Total</u>
Grades 9 through 12	<u>2,555.26</u>	<u>2,555.26</u>	<u>2,534.55</u>	<u>2,534.55</u>
ADA Totals	<u>2,555.26</u>	<u>2,555.26</u>	<u>2,534.55</u>	<u>2,534.55</u>

**Supplemental Hourly Programs:**

Grades K-12 Core Instruction	16,796
Grades 7-12 Remedial	<u>11,449</u>
	<u>28,245</u>

See notes to the supplementary information.

**PALISADES CHARTER HIGH SCHOOL**  
**RECONCILIATION OF ANNUAL FINANCIAL**  
**REPORT WITH AUDITED FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2008**

June 30, 2008 Annual Financial Report		
Fund Balances (Net Assets)		\$ 5,458,496
Adjustments and Reclassifications:		
Increasing (Decreasing) the Fund Balance (Net Assets):		
Cash Understated	114,225	
Property, Plant and Equipment (net of accumulated depreciation)		
Understated	1,947,500	
Accounts Payable and Other Current Liabilities Understated	(73,852)	
Loan payable, net of Long-term portion	<u>(429,429)</u>	
Net Adjustments and Reclassifications		<u>1,558,444</u>
June 30, 2008 Audited Financial Statement		
Fund Balances (Net Assets)		<u>\$ 7,016,940</u>

See notes to the supplementary information.

**PALISADES CHARTER HIGH SCHOOL**

**SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS**

**For the Year Ended June 30, 2008**

<b>PROGRAM NAME</b>	<b>Federal Catalog Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<i>U.S. Department of Education</i>			
<b>Pass-Through Programs from California Department of Education:</b>			
No Child Left Behind Act			
Title I, A	84.010A	03797	\$ 239,327
Title II, A	84.367A	03207	25,611
Title II	84.318D	N/A	4,652
Title III, A	84.365	13285	21,823
Title IV, A	84.186	N/A	8,726
Title V, A	84.298A	03453	<u>1,897</u>
<i>Total U.S Department of Education</i>			<u>302,036</u>
 <i>U.S. Department of Agriculture:</i>			
<b>Pass-Through Programs from California Department of Education:</b>			
Child nutrition Programs	10.555	03396	<u>256,768</u>
<i>Total U.S Department of Agriculture</i>			<u>256,768</u>
 <b>Total Federal Programs</b>			 <b><u>\$ 558,804</u></b>

See notes to the supplementary information.

**PALISADES CHARTER HIGH SCHOOL**

**NOTES TO SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2008**

**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.

**C. Reconciliation of Annual Financial Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balances (net assets) of the charter school as reported on the Annual Financial Report form to the audited financial statements.

**D. Schedule of Expenditures of Federal Awards**

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133, this schedule was prepared for the School and is presented on the modified accrual basis of accounting.



**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.  
Pacific Palisades, CA 90272-3523

We have audited the financial statements of Palisades Charter High School (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 20, 2008. 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 the School's internal control over financial reporting as a basis for designing our audit procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

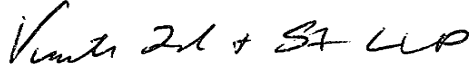
**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

  
VICENTI, LLOYD & STUTZMAN LLP

November 20, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Palisades Charter High School (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Internal Control over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, 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 control deficiency 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the School's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the School's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

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

  
VICENTI, LLOYD & STUTZMAN LLP

November 20, 2008





## 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 (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 20, 2008. 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 Comptroller General of The United States, and the *2007-08 Standards and Procedures for Audits of California K-12 Local Educational Agencies* [published by the Education Audit Appeals Panel]. 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.

The School's management is responsible for the School's compliance with laws and regulations. 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 in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuation	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable
Adult education	9	Not applicable
Regional occupational center/programs	6	Not applicable

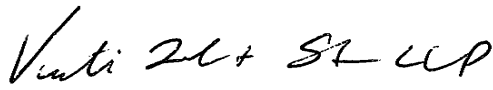
## REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	6	Not applicable
County Offices of Education	3	Not applicable
Community day schools	9	Not applicable
Class size reduction program (including charter schools):		
General requirements	7	Not applicable
Option 1	3	Not applicable
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
Morgan-Hart class size reduction program	7	Not applicable
Instructional materials:		
General requirements	12	Not applicable
Grades K-8 only	1	Not applicable
Grades 9-12 only	1	Not applicable
Ratios of administrative employees to teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive program	4	Not applicable
GANN limit calculation	1	Not applicable
School Construction Funds:		
School District Bonds	3	Not applicable
State School Facilities Funds	1	Not applicable
Excess sick leave	2 or 3	Not applicable
Notice of right to elect California State Teachers Retirement		
System (CalSTRS) membership	1	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
Mathematics and reading professional development	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	4	Not applicable
Before School	5	Not applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Nonclassroom based instruction/independent study	15	Not applicable
Determination of funding for nonclassroom-based instruction	3	Not applicable
Annual instructional minutes – classroom based	3	Yes

## REPORT ON STATE COMPLIANCE

Based on our audit, we found that, for the items tested, the 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 the School had not complied with the laws and regulations of state programs and requirements.

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

  
VICENTI, LLOYD & STUTZMAN LLP

November 20, 2008

**PALISADES CHARTER HIGH SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2008**

**Financial Statements**

Type of auditor's report issued November 20, 2008:	<i>Unqualified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	<i>No</i>
Significant deficiencies identified that are not considered to be material weakness(es)?	<i>None noted</i>
Noncompliance material to financial statements noted?	<i>No</i>

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	<i>No</i>
Significant deficiencies identified that are not considered to be material weakness(es)?	<i>No</i>
Type of auditor's report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of (Circular A-133) Section. 510(a)	<i>No</i>
Identification of major programs:	

**CFDA Number(s) Name of Federal Program or Cluster**

10.555	Child Nutrition Programs
84.010A	Title I

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?	<i>No</i>
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**PALISADES CHARTER HIGH SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2008**

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

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings noted for the year ended June 30, 2008.

**PALISADES CHARTER HIGH SCHOOL**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008**

There were no prior year findings.