

PALISADES CHARTER HIGH SCHOOL

LOS ANGELES COUNTY

PACIFIC PALISADES, CALIFORNIA

AUDIT REPORT

JUNE 30, 2011

**PALISADES CHARTER HIGH SCHOOL
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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Palisades Charter High School
15777 Bowdoin St.
Pacific Palisades, California 90272-3523**

We have audited the accompanying statement of financial position of Palisades Charter High School as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Palisades Charter High 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 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 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 referred to above present fairly, in all material respects, the financial position of Palisades Charter High School as of June 30, 2011, and the results of its changes in net assets and its cash flows, for the 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 our report dated November 16, 2011, on our consideration of Palisades Charter High School's internal control over financial 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Palisades Charter High School's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2010-11*, published by the Education Audit Appeals Panel, and is also not a required part of the financial statements. The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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.

William Bradley King & Co. LLP

El Cajon, California
November 16, 2011

**PALISADES CHARTER HIGH SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 and 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 3,793,563	\$ 4,995,597
Accounts receivable	5,088,780	3,574,299
Prepaid expense	45,645	61,783
Related party receivable	28,429	39,282
Total Current Assets	<u>8,956,417</u>	<u>8,670,961</u>
Noncurrent Assets		
Property and equipment, net	6,113,628	4,998,733
Total Assets	<u><u>\$ 15,070,045</u></u>	<u><u>\$ 13,669,694</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 283,818	\$ 492,642
Accrued liabilities	2,826,772	2,243,079
Due to sponsoring district	838,027	1,105,057
Deferred revenue	7,381	5,221
Current portion of loans payable	337,388	410,357
Total Current Liabilities	<u>4,293,386</u>	<u>4,256,356</u>
Loans payable, less current portion	<u>1,593,117</u>	<u>714,890</u>
Total Liabilities	<u>5,886,503</u>	<u>4,971,246</u>

Commitments and Contingencies

NET ASSETS

Unrestricted net assets:		
Board designated	2,712,243	2,040,621
General reserves	5,969,549	6,412,427
Total Unrestricted Net Assets	<u>8,681,792</u>	<u>8,453,048</u>
Temporarily restricted net assets	281,750	75,400
Permanently restricted net assets	220,000	170,000
Total Net Assets	<u>9,183,542</u>	<u>8,698,448</u>
Total Liabilities and Net Assets	<u><u>\$ 15,070,045</u></u>	<u><u>\$ 13,669,694</u></u>

**PALISADES CHARTER HIGH SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 and 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Totals
Revenues:					
Federal revenue	\$ 2,136,254	-	-	\$ 2,136,254	\$ 1,407,099
General purpose grant	13,281,629	-	-	13,281,629	11,955,989
Categorical grant	1,371,314	-	-	1,371,314	1,418,366
Property tax	3,314,102	-	-	3,314,102	3,807,630
State revenue	2,738,368	-	-	2,738,368	2,432,909
Local revenue	828,021	67,041	50,000	945,062	900,513
Interest revenue	63,374	-	-	63,374	70,627
Net assets released from restrictions	(139,309)	139,309	-	-	-
Total Revenues	23,593,753	206,350	50,000	23,850,103	21,993,133
Expenses:					
Salaries and wages	13,267,361	-	-	13,267,361	13,558,999
Employee benefits	4,233,159	-	-	4,233,159	4,173,138
Books and supplies	1,930,424	-	-	1,930,424	1,068,803
Services and operating expenses	3,164,959	-	-	3,164,959	2,819,693
Other	247,250	-	-	247,250	179,268
Interest	99,684	-	-	99,684	55,735
Depreciation	422,172	-	-	422,172	723,915
Total Expenses	23,365,009	-	-	23,365,009	22,579,551
Increase (Decrease) in net assets	228,744	206,350	50,000	485,094	(586,418)
Net assets at beginning of year	8,453,048	75,400	170,000	8,698,448	9,284,866
Net assets at end of year	\$ 8,681,792	\$ 281,750	\$ 220,000	\$ 9,183,542	\$ 8,698,448

**PALISADES CHARTER HIGH SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

Cash Flows From Operating Activities

	<u>2011</u>	<u>2010</u>
Change in Net Assets:	\$ 485,094	\$ (586,418)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	422,172	723,915
Interest expense accrued as debt	-	33,835
Decrease (increase) in operating assets:		
Accounts receivable	(1,514,481)	(728,860)
Related party receivable	10,853	9,094
Prepaid expenses	16,138	5,815
Increase (decrease) in operating liabilities:		
Accounts payable	(208,824)	301,606
Accrued liabilities	583,693	244,573
Deferred revenue	2,160	3,580
Due to sponsoring district	(267,030)	205,894
Net Cash Used by Operating Activities	<u>(470,225)</u>	<u>213,034</u>
Cash Flows From Investing Activities		
Proceeds from sale and maturities of investment	-	455,235
Purchase of property and equipment	(1,537,067)	(3,191,436)
Net Cash Used From Investing Activities	<u>(1,537,067)</u>	<u>(2,736,201)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of debt	1,354,580	750,000
Repayment of debt	(549,322)	(88,017)
Net Cash Provided by Financing Activities	<u>805,258</u>	<u>661,983</u>
Net Decrease in Cash and Cash Equivalents	(1,202,034)	(1,827,349)
Cash and Cash Equivalents at the beginning of the year	<u>4,995,597</u>	<u>6,822,946</u>
Cash and Cash Equivalents at the end of the year	<u>\$ 3,793,563</u>	<u>\$ 4,995,597</u>
Interest paid during the fiscal year	<u>\$ 99,684</u>	<u>\$ 55,735</u>

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

A. Organization and Summary of Significant Accounting Policies

Organization

Palisades Charter High School (School) is a California public charter school, organized with the mission to educate our diverse students by developing their skills and talents to help them make positive contributions to our 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 Los Angeles Unified School District (LAUSD). The School pays Los Angeles Unified School District for its actual costs of supervisory oversight up to 3% of revenues.

Basis of Presentation

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

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:

Pool loan restricted cash	\$	280,258
Track and Field Program		187
Drama Program		1,040
Library Fund		265
Total	\$	281,750

- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. As of June 30, 2011, the School has \$220,000 in permanently restricted net assets of which the earnings are to be used for Scholarships.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and reported amounts of revenues and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

A. Organization and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid debt equity instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The School's method of accounting for investments, in accordance with generally accepted accounting principles, is the fair value method. Fair value is determined by published quotes. Changes in fair value of investments results in increases or decreases in the unrealized fair values of equity investments. Adjustments to fair values are reflected as "Unrealized gain/loss on investments" in the accompanying Statement of Activities.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation.

Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and Equipment

Property and equipment are recorded at cost, or estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred. The School's policy is to evaluate the remaining lives and recoverability in light of the current conditions. It is reasonably possible that the School's estimate to recover the carrying amount of the property and equipment will change.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

A. Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes

The School is a 501(c)(3) publicly supported nonprofit organization that is exempt from income taxes. This exemption is for all income taxes except for those assessed on unrelated business income, if any. The School is also exempt from state franchise or income tax under Section 23701d of the California Revenue and Taxation Code.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period or when resources are received by the School prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met or when the School has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

The School maintains a portion of its cash in the Los Angeles County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds 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 are collateralized.

Subsequent Events

All events subsequent to the statement of financial position date of June 30, 2011 through November 16, 2011, which is the date these financial statements were available to be issued, have been evaluated in accordance with FASB Statement on Accounting Standards Number 165, *Subsequent Events*.

B. Concentration of Credit Risk

The School maintains bank accounts with two institutions. Interest bearing accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Non-interest bearing accounts at institutions participating in the FDIC’s Transaction Account Guarantee Program are fully insured.

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

B. 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.

C. Accounts Receivable

Receivables are deemed to be fully collectible by management. As a result, no allowance for uncollectible accounts has been established. Receivables at June 30, 2011 consists of:

Federal programs		\$ 189,419
State programs		4,617,302
Local and miscellaneous		<u>282,059</u>
Total		<u>\$ 5,088,780</u>

D. Property and Equipment

Property and equipment consist of the following at June 30, 2011:

Equipment		\$ 662,363
Building improvements		<u>8,345,686</u>
Total		9,008,049
Less accumulated depreciation		<u>(2,894,421)</u>
Total property and equipment, net		<u>\$ 6,113,628</u>

E. Accounts Payable

Accounts payable at June 30, 2011 consisted of:

Vendors payable		<u>\$ 283,818</u>
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**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

F. Long-Term Debt

In February 2010 the School entered into a loan agreement with an individual in the amount of \$750,000 for costs associated with the School's pool project. The loan bears interest at a rate of 5.6 percent annual simple interest. Repayment of the loan plus accrued interest of \$33,835 began January 2011 and will be made quarterly through October 2015. At June 30, 2011 the principal amount due was \$714,890.

In July 2010, the School entered into two term loan facility agreements (the "Credit Facilities) with Bank of the West. Facility Agreement #1 is a 3-year fully amortizing term loan in the amount of \$354,580 used to refinance the balloon payment on the De Lage Landen Public Finance LLC loan that matured on June 30, 2010. Facility Agreement #2 is a 5.5-year term loan facility amortized over 10 years in the amount of \$1,000,000 that was used to complete the School's pool project. This term loan had a six month interest only period followed by an amortization period of 60 months plus a balloon payment of \$577,282.60 due at maturity. Both Facility Agreements are presently amortizing.

On August 24, 2010, the School entered into two interest rate swap agreements (the "Swap Agreements") with the Bank for the purpose of fixing the interest rate on the majority of the Credit Facility. The Swap Agreements effectively fixed the interest rates on 100% of Facility Agreement #1 and 90% of Facility Agreement #2 at a rate of 5.69%, the rate determined on the basis of a 3.75% LIBOR credit spread. The remaining 10% balance of Facility Agreement #2 accrues interest on the basis of the Bank's monthly LIBOR rate plus a credit spread 3.75%.

The Credit Facilities are collateralized by a UCC filing with the California Secretary of State on substantially all of the assets of the School and perfected by a Credit and Security Agreement dated July 28, 2010. Additional collateral for the Credit facilities is in the form of pledged cash on deposit with the Bank, and are reported and discussed on page 6 in the "Temporarily Restricted Net Assets of the Organization" section of the financial statements.

Repayment of the loans are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Payments</u>
2012	\$ 337,388
2013	368,309
2014	250,513
2015	885,752
2016	<u>88,547</u>
Total	<u>1,930,509</u>
Less current portion	<u>(337,388)</u>
Net long-term debt	<u>\$ 1,593,117</u>

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

G. Employee Retirement System

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 employee's retirement programs.

Plan Description

The school contributes to the 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 report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

State Teachers' Retirement System (STRS)

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 PERS Executive Office, 400 P Street, Sacramento, CA 95814.

The School's classified employees participate in PERS. The School reports all applicable information to PERS through the LACOE. The School is required to contribute 10.707% of annual eligible payroll for active plan members.

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

G. Employee Retirement System (continued)

Contributions to STRS and PERS

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

Year Ended June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2009	\$ 875,232	100%	\$ 219,986	100%
2010	\$ 850,480	100%	\$ 223,658	100%
2011	\$ 740,181	100%	\$ 206,681	100%

H. Other Post Employment Benefits

Palisades Charter High School (PCHS) provides for the continuation of retiree health benefits to eligible employees at retirement. Retiree health benefits include medical, prescription drug, dental and vision coverage. PCHS currently pays the cost of coverage for the retiree and any covered dependents during the lifetime of the retiree. Eligibility for retiree health benefits varies based on when an employee was hired. Employees hired on or after July 1, 2009 except Palisades Educational Support Personnel United (PESPU) employees are not eligible for PCHS paid retiree health benefits.

PCHS currently provides medical, dental and vision benefits to approximately 165 eligible active employees. As of June 30, 2011 there were three retirees eligible for benefits.

PCHS provides health benefits to certain eligible employees at retirement. The retiree health benefits provided are a continuation of the medical including prescription drugs, dental and vision benefits provided to active employees. The retiree health coverage is paid for entirely by PCHS for the lifetime of the retiree. Survivors of deceased retirees may continue health coverage at their own expense. Eligibility for retiree health benefits requires the following:

*Future retiree must be enrolled in health plan prior to retirement date.

*Future retiree must be in receipt of monthly payment from STRS or PERS.

*Active employees must meet the following years of service requirements at retirement.

- Hired before 3/12/84 must have 5 consecutive years of service just prior to retirement.
- Hired after 3/11/84 but before 7/1/87 – must have 10 consecutive years of service just prior to retirement.
- Hired after 6/30/87 but before 6/1/92 – must have 15 consecutive years of service just prior to retirement or 20 years service with 10 years of consecutive years of service just prior to retirement.

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

H. Other Post Employment Benefits (continued)

- Hired after 5/31/92 age + consecutive years of qualifying service at retirement greater than or equal to 80.
- Hired after 2/28/07 age + consecutive years of qualifying service at retirement greater than or equal to 80 and at least 15 consecutive years of qualifying service at retirement.
- PESPU hired after 6/30/09 age + consecutive years of qualifying service at retirement greater than or equal to 85 and at least 25 consecutive years of qualifying service at retirement.

*Retiree must be enrolled in Medicare Part A if eligible; and must enroll in Part B.

All employees except PESPU employees hired on or July 1, 2009 are not eligible for PCHS-paid health benefits at retirement. Employees who defer their retirement after separation from service with PCHS are not eligible for PCHS-paid health benefits.

	Projected 6/30/2011 *		
1. Change in Benefit Obligation			
Benefit Obligation at Beginning of Year	\$ 10,371,867		
Service Cost	876,119		
Interest Cost	622,312		
Change Due to Plan Amendments	-		
Change Due to Gain/Loss	-		
Benefits Paid	-		
Benefit Obligation at End of Year	\$ 11,870,298		
2. Change in Plan Assets			
Fair Value of Plan Assets at Beginning of Year	\$ -		
Expected/Actual Return of Plan Assets	-		
Employer Contributions	-		
Benefits Paid	-		
Fair Value of Plan Assets at End of Year	\$ -		
3. Funded Status 2. minus 1.	\$ (11,870,298)		
Unrecognized Net Gain/Loss	-		
Unrecognized Prior Service Cost	-		
Unrecognized Transition Obligation	9,853,274		
Net Amounts Recognized	\$ (2,017,024)		
4. Amount Recognized in Unrestricted Assets			
Net Actuarial Gain/Loss	\$ -		
Prior Service Cost	\$ -		
Unrecognized Net Transition Obligation	\$ 9,853,274		
Net Amount Recognized	\$ 9,853,274		
5. Weight Average Assumptions for Disclosure			
Discount Rate	6.0%		
Initial Healthcare Trend Rate	8.5% PPO/	8.0% HMO	

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

H. Other Post Employment Benefits (continued)

	Projected 6/30/2011*
6. Components of Net Periodic Benefit Cost	
Service Cost	\$ 876,119
Interest Cost	622,312
Expected Return on Assets	-
Amortization of Net (Gain)/Loss	-
Amortization of Prior Service Cost	-
Amortization of Transition Obligation	518,593
Net Periodic Postretirement Benefit Cost	<u>\$ 2,017,024</u>
7. Effect of a 1% Increase in Healthcare Trend	
Benefit Obligation	\$ 2,346,363
Total Service Cost and Interest Cost	\$ 381,419
8. Effect of a 1% Decrease in Healthcare Trend	
Benefit Obligation	\$ (1,331,105)
Total Service Cost and Interest Cost	\$ (211,840)
9. Estimated Future Benefit Payments	
2011/2012	\$ 71,887
2012/2013	\$ 163,264
2013/2014	\$ 234,084
2014/2015	\$ 312,367
2015/2016	\$ 390,393
2016/2017	\$ 457,650
2017/2018	\$ 522,735
2018/2019	\$ 601,183
2019/2020	\$ 707,905
2020/2021	\$ 816,611

* The above information relating to the School's Other Post Employment Benefits are contained in the Palisades Charter High School Actuarial Valuation as of July 1, 2009 for the 2009-2010 fiscal year. This information has been updated for known information from the 2010-11 fiscal year. The School will obtain a new actuarial valuation for the 2011-2012 fiscal year and anticipates having a new evaluation every two years.

I. Board Designated Unrestricted Net Assets:

In response to and in anticipation of the post-retirement health benefits described in Note H, the School has designated \$2,712,243 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.

**PALISADES CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)**

I. Board Designated Unrestricted Net Assets: (continued)

A summary of the Board designated unrestricted net assets is as follows:

Balance June 30, 2010	\$ 2,040,621
Current year designations	691,000
Current year benefits paid	<u>(19,378)</u>
Balance June 30, 2011	<u>\$ 2,712,243</u>

J. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

The School has received federal and state 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 will not be material.

SUPPLEMENTAL INFORMATION

**PALISADES CHARTER HIGH SCHOOL
ORGANIZATION
JUNE 30, 2011**

The Palisades Charter High School (Charter #0037) was formed pursuant to Education Code 47600 under the agreement with the Los Angeles Unified School District granted in September 1993. The charter was renewed by Los Angeles Unified School District for a five year term in May 2010.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Naomi Norwood	Community Representative	1 Year Term Expires 10/30/2011
James Paleno	Teacher Representative	1 Year Term Expires 10/30/2011
Jason Cutler	Community Representative	2 Year Term Expires 10/30/2011
Stephanie Inyama	Parent Representative	2 Year Term Expires 10/30/2012
Lisa Kaas-Boyle	Community Representative	2 Year Term Expires 10/30/2012
Eleanor Rozell	Classified Representative	1 Year Term Expires 10/30/2011
Chris Lee	Teacher Representative	2 Year Term Expires 10/30/2012
Allison Holdorff-Polhill	Parent Representative	2 Year Term Expires 10/30/2012
Susan Frank	Parent Representative	2 Year Term Expires 10/30/2011
Wendy Hagan	Teacher Representative	2 Year Term Expires 6/30/2012
Monica Iannessa	Administrative Representative	2 Year Term Expires 10/30/2012
Shahin Mohammad 1 (Ex-Officio)	Student Representative	1 Year Term Expires 6/30/2011

ADMINISTRATION

Michael A. Smith, (Ex-Officio) Executive Director

Gregory Wood, (Ex-Officio) Chief Business Officer

Marcia Haskin, (Ex-Officio) Academic Principal

**PALISADES CHARTER HIGH SCHOOL
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011**

Classroom Based	Second Period Report		Annual Report*	
	Original	Revised	Original	Revised
High School:				
Grades 9 through 12, regular classes	2,717.86	2,716.72	2,674.21	2,674.21

Average daily attendance is a measurement of the number of pupils attending classes of the charter school. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

*The school did not revise their annual report of attendance.

**PALISADES CHARTER HIGH SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Classroom Based Grade Level:</u>	<u>Minutes Requirement</u>	<u>2010-11 Actual Minutes</u>	<u>Number of Traditional Days</u>	<u>Status</u>
Grade 9	62,949	65,940	176	Complied
Grade 10	62,949	65,940	176	Complied
Grade 11	62,949	65,940	176	Complied
Grade 12	62,949	65,940	176	Complied

Palisades Charter High School must maintain their instructional minutes as required by Educational Code Section 46201.

**PALISADES CHARTER HIGH SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED, JUNE 30, 2011**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Title I*	84.010	14416	\$ 252,363
Title III LEP	84.365	10084	9,412
ARRA-State Fiscal Stabilization Fund*	84.394	25008	262,159
Title II-Teacher Quality	84.367	14341	27,658
Special Education*	84.027	13379	531,509
Enhancing Education	84.386	15019	2,138
ARRA-Education Jobs Fund	84.410	25152	<u>619,421</u>
Total Passed Through State Department of Education			<u>1,704,660</u>
Total U.S. Department of Education			<u>1,704,660</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education:			
National School Lunch Program*	10.555	13396	<u>431,594</u>
Total U.S. Department of Agriculture			<u>431,594</u>
Total Expenditures of Federal Awards			<u>\$ 2,136,254</u>

*Indicates clustered program under OMB Circular A-133 Compliance Supplement

**PALISADES CHARTER HIGH SCHOOL
RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED, JUNE 30, 2011**

June 30, 2011 Annual Financial Report Fund Balances (Net Assets)	\$ <u>4,663,031</u>
Adjustments and Reclassifications:	
Increasing (Decreasing) the Fund Balance (Net Assets):	
Property and equipment (net of accumulated depreciation) understated	6,113,628
Liabilities understated	<u>(1,593,117)</u>
Net Adjustments and Reclassifications	<u>4,520,511</u>
June 30, 2011 Audited Financial Statement Fund Balances (Net Assets)	\$ <u><u>9,183,542</u></u>

This schedule provides the information necessary to reconcile the net assets as reported in the unaudited actual report to the net assets reported on the audited financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS



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**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 Trustees
Palisades Charter High School
Pacific Palisades, California**

We have audited the financial statements of Palisades Charter High School as of and for the year ended June 30, 2011, and have issued our report thereon dated November 16, 2011. 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 Palisades Charter High School's internal control over financial reporting as a basis for designing our auditing 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 Palisades Charter High School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Palisades Charter High School's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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*.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

William Nady King ^{PhD} LP

El Cajon, California
November 16, 2011



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Board of Trustees
Palisades Charter High School
Pacific Palisades, California**

Compliance

We have audited Palisades Charter High School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Palisades Charter High School's major federal programs for the year ended June 30, 2011. Palisades Charter High 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 Palisades Charter High School's management. Our responsibility is to express an opinion on Palisades Charter High 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 Palisades Charter High 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 on Palisades Charter High School's compliance with those requirements.

In our opinion, Palisades Charter High School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Palisades Charter High 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 Palisades Charter High School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 Palisades Charter High School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of the Board of Trustees, management, others within the organization, the State Controller's Office, and federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



El Cajón, California
November 16, 2011



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INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

**Board of Trustees
 Palisades Charter High School
 Pacific Palisades, California**

We have audited the financial statements of the Palisades Charter High School (“School”) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 16, 2011. We have also audited the School’s compliance with the requirements specified in the State’s audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2010-11*, published by the Education Audit Appeals Panel, applicable to the School’s statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the School’s management. Our responsibility is to express an opinion on the School’s compliance based on our audit.

The auditing standards referred to above require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the state laws and regulations applicable to the items in the schedule below 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 connection with the audit referred to above, we selected and tested transactions and records to determine the School’s compliance with the state 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	N/A
Kindergarten Continuance	3	N/A
Independent Study	23	N/A
Continuation Education	10	N/A
Instructional Time:		
School Districts	6	N/A
County Offices of Education	3	N/A
Instructional Materials, General Requirements	8	N/A
Ratio of Administrative Employees to Teachers	1	N/A
Classroom Teacher Salaries	1	N/A
Early Retirement Incentive Program	4	N/A
GANN Limit Calculation	1	N/A

School Accountability Report Card	3	N/A
Public Hearing Requirement-Receipt of Funds	1	N/A
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	N/A
Option One Classes	3	N/A
Option Two Classes	4	N/A
Only One School Serving Grades K-3	4	N/A
After School Education and Safety Program		
General Requirements	4	N/A
After School	4	N/A
Before School	5	N/A
Contemporaneous Records of Attendance, For Charter Schools	1	Yes
Mode of Instruction, for Charter Schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	N/A
Determination of Funding for Nonclassroom-Based Instruction, For Charter Schools	3	N/A
Annual Instructional Minutes – Classroom Based, For Charter Schools	3	Yes

The term “N/A” is used above to mean either the School did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

In our opinion, Palisades Charter High School complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2011.

This report is intended solely for the information and use of the Board of Directors, Management, State Controller’s Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

William Stanley King & Co LLP

El Cajon, California
November 16, 2011

**PALISADES CHARTER HIGH SCHOOL
SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are
Not considered to be material weaknesses? Yes No

Noncompliance material to financial
statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that
Are not considered to be material weaknesses? Yes No

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of OMB Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.410	ARRA Education Job Fund
10.555	National School Lunch Program
84.394	ARRA State Fiscal Stabilization Funds

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

Auditee qualified as low-risk auditee? Yes No

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies that are
not considered to be material weaknesses? Yes No

Type of auditor's report issued on compliance
for state programs? Unqualified

**PALISADES CHARTER HIGH SCHOOL
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

B. Financial Statement Findings

None.

C. Federal Award Findings

None.

D. State Award Findings

None.

**PALISADES CHARTER HIGH SCHOOL
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2010-1 (50000)
Federal Payroll

Federal Program Information:
Special Education (84.027)
ARRA State Fiscal Stabilization Fund (84.394)
Title 1(84.010)
ARRA Title 1 (84.389)

Compliance Requirement
Allowable Costs

Criteria or Specific Requirement

Determine the School has procedures and controls in place to ensure all employees who are funded by federal programs have the proper documentation on file to support the allocation of federal funding sources.

Condition

In our review of payroll for employees who were funded by federal programs, we noted the School did not have on file the required semi-annual certification forms for those charged 100% to the program, and did not have on file a PAR (Personnel Activity Report) form for those who multifunded.

OMB Circular A-87 requires that if an employee is funded by a sole single federal categorical program or cost objective, the minimum requirement for documenting salary or wages is a semi-annual certification by the employee that he or she worked only in that federal categorical or cost objective during the period covered by the certification. The certification must be signed by the employee or the supervisor having firsthand knowledge of the work performed. If an employee is funded by multiple programs, a PAR or its equivalent is required to be obtained by the district to support the employee's salary.

None of the employees selected for testing had on file the semi-annual certification or a PAR, or its equivalent, to support their funding, as required.

Questioned Costs

The salary and benefits for the following programs:
Special Education (84.027) \$322,238
ARRA State Fiscal Stabilization Fund (84.394) \$853,069
Title 1 (84.010) \$208,694
ARRA Title 1 (84.389) \$50,121

Current Status

Implemented.