



**PALISADES CHARTER
HIGH SCHOOL**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Palisades Charter High School
Pacific Palisades, California

We have audited the accompanying consolidated financial statements of Palisades Charter High School (the Charter School) (A California Non-Profit Benefit Organization), which are comprised of the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements. The prior years' summarized comparative information has been derived from the Charter School's consolidated financial statements report dated December 12, 2012, which were audited by another auditor and expressed unmodified opinions.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Charter School as of June 30, 2013, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Charter School's consolidated financial statements. The *Schedule of Expenditures of Federal Awards*, as required by the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the Charter 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Varrink, Tein, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(With summarized financial information at June 30, 2012)

JUNE 30, 2013

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,582,901	\$ 2,412,389
Investment - county pool	4,907,382	2,539,670
Accounts receivable	3,788,475	5,860,286
Inventory	23,162	8,246
Prepaid expenses and other current assets	36,951	39,545
Total Current Assets	<u>10,338,871</u>	<u>10,860,136</u>
Non-Current Assets:		
Security deposits	30,064	30,064
Fixed assets	10,200,801	9,104,962
Less: accumulated depreciation	3,898,854	3,418,016
Total Non-Current Assets	<u>6,332,011</u>	<u>5,717,010</u>
Total Assets	<u>\$ 16,670,882</u>	<u>\$ 16,577,146</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 2,437,071	\$ 2,546,938
Due to student groups	194,699	165,570
Deferred revenue	8,200	2,700
Current portion of long-term obligations	366,716	407,781
Total Current Liabilities	<u>3,006,686</u>	<u>3,122,989</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>3,265,089</u>	<u>2,901,856</u>
Total Liabilities	<u>6,271,775</u>	<u>6,024,845</u>
NET POSITION		
Unrestricted net assets		
Board designated	1,613,089	1,613,089
General reserves	7,935,646	7,151,658
Total unrestricted net assets	<u>9,548,735</u>	<u>8,764,747</u>
Temporarily restricted	486,039	1,401,579
Permanently restricted	364,333	385,975
Total Net Position	<u>10,399,107</u>	<u>10,552,301</u>
Total Liabilities and Net Position	<u>\$ 16,670,882</u>	<u>\$ 16,577,146</u>

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

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

(With summarized financial information for the year ended June 30, 2012)

FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS					
Unrestricted revenues:					
State apportionments					
General Purpose	\$ 13,070,357	\$ -	\$ -	\$ 13,070,357	\$ 13,268,245
Property Taxes	3,846,108	-	-	3,846,108	3,708,184
Federal revenue	1,247,499	-	-	1,247,499	1,234,832
Other State revenue	4,630,429	-	-	4,630,429	3,959,227
Interest	28,036	-	-	28,036	36,391
Local revenue	1,462,661	-	-	1,462,661	2,525,346
Net assets released from restrictions	937,182	(915,540)	(21,642)	-	-
Total Revenues	<u>25,222,272</u>	<u>(915,540)</u>	<u>(21,642)</u>	<u>24,285,090</u>	<u>24,732,225</u>
EXPENSES					
Program services:					
Salaries and benefits	15,247,204	-	-	15,247,204	13,256,582
Student services	1,970,905	-	-	1,970,905	2,131,934
Materials and supplies	196,163	-	-	196,163	337,365
Student nutrition	349,654	-	-	349,654	359,985
Student transportation	625,992	-	-	625,992	706,434
Depreciation	480,838	-	-	480,838	463,778
Non-capital outlay	624,991	-	-	624,991	293,757
Subtotal	<u>19,495,747</u>	<u>-</u>	<u>-</u>	<u>19,495,747</u>	<u>17,549,835</u>
Management and general:					
Salary and benefits	3,369,795	-	-	3,369,795	4,500,257
Insurance	122,039	-	-	122,039	132,547
Operating expenses	1,369,181	-	-	1,369,181	1,076,258
Debt service	81,522	-	-	81,522	100,830
Subtotal	<u>4,942,537</u>	<u>-</u>	<u>-</u>	<u>4,942,537</u>	<u>5,809,892</u>
Total Expenses	<u>24,438,284</u>	<u>-</u>	<u>-</u>	<u>24,438,284</u>	<u>23,359,727</u>
INCREASE (DECREASE) IN UNRESTRICTED NET POSITION	<u>783,988</u>	<u>(915,540)</u>	<u>(21,642)</u>	<u>(153,194)</u>	<u>1,372,498</u>
NET POSITION, BEGINNING OF YEAR	<u>8,764,747</u>	<u>1,401,579</u>	<u>385,975</u>	<u>10,552,301</u>	<u>9,179,803</u>
NET POSITION, END OF YEAR	<u>\$ 9,548,735</u>	<u>\$ 486,039</u>	<u>\$ 364,333</u>	<u>\$ 10,399,107</u>	<u>\$ 10,552,301</u>

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

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
(With summarized financial information for the year ended June 30, 2012)

FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in unrestricted net assets	\$ (153,194)	\$ 1,372,498
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	480,838	463,778
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	2,071,811	(738,069)
Prepaid expenses and other current assets	2,594	19,901
Inventory	(14,916)	(8,246)
Increase (Decrease) in liabilities		
Accounts payable	(109,867)	925,035
Retiree benefit payable	602,346	(691,000)
Due to students groups	29,129	(97,816)
Deferred revenue	5,500	(4,681)
Net Cash Provided by Operating Activities	2,914,241	1,241,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for security deposits - net	-	(30,064)
Capital expenditures	(1,095,839)	(37,096)
Net Cash Used by Investing Activities	(1,095,839)	(67,160)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	(280,178)	(343,721)
Net Cash Used by Financing Activities	(280,178)	(343,721)
NET INCREASE IN CASH	1,538,224	830,519
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,952,059	4,121,540
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,490,283	\$ 4,952,059

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

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - ORGANIZATION AND MISSION

Palisades Charter High School (the Charter School) is a Non-Profit Public Benefit Corporation. The Charter School petitioned for a charter through Los Angeles Unified School District (LAUSD) and was approved in September 1993. The charter was renewed in May 2010 for a period of five years ending on June 30, 2015.

Charter school number authorized by the State: 0037

The Charter School located at 15777 Bowdoin Street, Los Angeles, California, opened as an independent charter on August 1, 2003, and currently serves 2,860 students in grades nine through twelve. The Charter School is a California public charter school, with a mission to empower a diverse student population to make positive contributions to the global community by dedicating resources to ensure educational excellence, civic responsibility, and personal growth.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the use of the consolidated financial statements to the reader.

Financial Statement Presentation

The Charter School is required to report information about their financial position and activities in three classes of net position: unrestricted, temporarily restricted, and permanently restricted net position. The Charter School had temporarily and permanently restricted net position at June 30, 2013. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to non-profit public benefit corporations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the consolidated financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School used the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

PALISADES CHARTER HIGH SCHOOL
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net position depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net position are reclassified to unrestricted net position and reported in the Statement of Activities as "net position released from restrictions".

Government grants are recognized as revenue in accordance with the terms of the applicable grant agreement, which generally require revenue recognition upon incurrence of expenses related to the specified services. Deferred revenue is recorded to the extent cash received on specific grants exceeds qualified expenses.

Income Taxes

The Charter School is non-profit public benefit corporations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. They are also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these consolidated financial statements. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain tax positions are required.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, the Charter School consider all highly liquid investments which includes investment with County Pool, with an initial maturity of three months or less to be considered as cash equivalents.

Investments

The Charter 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.

PALISADES CHARTER HIGH SCHOOL
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 position 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 Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Charter School reclassifies temporarily restricted net position to unrestricted net position 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 Charter School's policy is to evaluate the remaining lives and recoverability in light of the current conditions. It is reasonably possible that the Charter School's estimate to recover the carrying amount of the property and equipment will change.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2013, management had determined all accounts receivable are fully collectible and no allowance for bad debts has been established.

Fixed Assets

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Building and leasehold improvements, furniture, and equipment are depreciated using the straight-line method, from 2 to 30 years. At June 30, 2013, the depreciation expense was \$480,838.

Reclassification of Comparative Statements

The Charter School reclassified certain expenses as program service or management and general for the 2013 fiscal year. Accordingly, these reclassifications have been revised for the presentation of 2012.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Prior Year Summarized Financial Information

The financial statements include prior-year summarized comparative information in total and do not include information by the unrestricted, temporarily restricted and permanently restricted net asset classes as required by accounting principles generally accepted in the United States of America. Accordingly, the information should be read in conjunction with the Charter School's financial statements as of June 30, 2012, from which the summarized comparative information was derived.

Use of Estimates

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

Unrestricted/Designated Net Position

Designations of the ending net position indicate tentative plans for financial resource utilization in a future period. At June 30, 2013, the Charter School had \$1,613,089 in designated unrestricted net position.

NOTE 3 - CASH

Cash at June 30, 2013, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 1,582,901</u>	<u>\$ 1,315,871</u>

The majority of the Charter School's cash is held in non-interest bearing accounts that are not subject to federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2013, the Charter School had a balance of \$1,065,871 in excess of FDIC insured limits in interest and non-interest bearing accounts. Management believes the Charter School is not exposed to any significant risk related to cash.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - INVESTMENTS

Investments at June 30, 2013, consisted of the following:

	<u>Reported Amount</u>	<u>Fair Market Value</u>
Los Angeles County Treasury Investment Pool	<u>\$ 4,907,382</u>	<u>\$ 4,903,456</u>

Deposits with county treasurer are an external investment pool sponsored by the County of Los Angeles. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

NOTE 5 - FAIR MARKET VALUE MEASUREMENTS

Effective January 1, 2008, the Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in SFAS No. 157, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels, as defined by SFAS No. 157, used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

PALISADES CHARTER HIGH SCHOOL
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Fair values of assets measured on a recurring basis at June 30, 2013, are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Los Angeles County Treasury Investment Pool	\$ 4,903,456	\$ -	\$ 4,903,456	\$ -

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013, consisted of the following:

Revenue limit sources	
General apportionment	\$ 3,009,028
Federal programs	48,618
State programs	476,703
Lottery	186,113
Interest	4,344
Local and miscellaneous	63,669
Total Accounts Receivable	<u>\$ 3,788,475</u>

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2013, consisted of the following:

Building improvements	\$ 9,300,710
Equipment	869,344
Work in progress	30,747
Subtotal	<u>10,200,801</u>
Less: accumulated depreciation	<u>(3,898,854)</u>
Total Fixed Assets	<u>\$ 6,301,947</u>

During the year ended June 30, 2013, \$480,838 was charged to depreciation expense.

PALISADES CHARTER HIGH SCHOOL
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

Salaries and taxes*	\$ 897,818
Vendors payable	1,183,985
Due to sponsoring district	355,268
Total Accounts Payable	<u>\$ 2,437,071</u>

*Salaries and benefits does not include post employment benefit payable as in previous years. Liability is reflected in long-term obligations.

NOTE 9 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consisted of the following:

Local sources	<u>\$ 8,200</u>
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NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013, consisted of the following:

	<u>2013</u>	<u>2012</u>
Pool loan	\$ 280,810	\$ 280,539
Renovation and technology	204,199	1,120,000
Drama program	1,030	1,040
Total Temporarily Restricted Net Assets	<u>\$ 486,039</u>	<u>\$ 1,401,579</u>

Permanently restricted net assets at June 30, 2013, consisted of the following:

	<u>2013</u>	<u>2012</u>
Scholarship fund	\$ 364,333	\$ 385,975
Total Restricted Net Assets	<u>\$ 850,372</u>	<u>\$ 1,787,554</u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 - LONG-TERM OBLIGATIONS

In February 2010, the Charter School entered into a loan agreement with an individual in the amount of \$750,000 for costs associated with the Charter 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 December 2018. At June 30, 2013, the principal amount due was \$491,736.

In July 2010, the Charter 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 Charter 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. At June 30, 2013, the principal amount due was \$814,869.

On August 24, 2010, the Charter 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 percent of Facility Agreement #1 and 90 percent of Facility Agreement #2 at a rate of 5.69 percent, the rate determined on the basis of a 3.75 percent LIBOR credit spread. The remaining 10 percent balance of Facility Agreement #2 accrues interest on the basis of the Bank's monthly LIBOR rate plus a credit spread 3.75 percent.

The Credit Facilities are collateralized by a UCC filing with the California Secretary of State on substantially all of the assets of the Charter 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 12 in the "Temporarily Restricted Net Position of the Organization" section of the financial statements.

Repayment of the loans is as follows:

<u>Repayment Year</u>	<u>Payments</u>
2014	\$ 178,782
2015	797,692
2016	87,832
2017	92,879
2018	98,216
2019	51,205
Total	<u>1,306,606</u>
Less Current Portion	(178,782)
Net Long-Term Debt	<u><u>\$ 1,127,824</u></u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Postemployment Benefits

Management has reported \$2,325,199 as long term obligations for postemployment benefits shown as current of \$187,934 and non-current obligation of \$2,137,265. Additionally, the Charter School has an original designation of postemployment benefits of \$1,613,089 reported in the ending balance.

<u>Repayment Year</u>	<u>Estimated Payments</u>
2014	\$ 187,934
2015	253,477
2016	322,453
2017	380,163
2018	434,069
2019	498,926
2020	248,177
Total	<u>\$ 2,325,199</u>
Less Current Portion	(187,934)
Net Long-Term Debt	<u><u>\$ 2,137,265</u></u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS). The Charter School contributes directly through the Los Angeles County Office of Education (LACOE) for employee retirement programs.

CalSTRS

Plan Description

The Charter School contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the Charter School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual certificated payroll. The contribution requirements of the plan members are established by State statute. The Charter School's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$827,514, \$854,571, and \$740,181, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The Charter School contributes to the Charter School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the Charter School is required to contribute an actuarially determined rate. As of January 1, 2013, effective rate change was 6.0 percent. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The Charter School's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$261,986, \$228,131, and \$206,681, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$464,385 (5.176 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Post-Retirement Benefits

The Charter School provides for the continuation of retiree health benefits to eligible employees at retirement. Retiree health benefits include medical, prescription drug, dental and vision coverage. The Charter School 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. All employees hired on or after July 1, 2009 except Palisades Educational Support Personnel United (PESPU) employees hired on or after January 1, 2012, are not eligible for the Charter School paid retiree health benefits.

The Charter School currently provides medical, dental and vision benefits to approximately 141 eligible active employees. As of June 30, 2013, there were ten retirees eligible for benefits.

The Charter School 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 the Charter School 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, and 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 March 12, 1984, must have five consecutive years of service just prior to retirement.
- Hired after March 11, 1984, but before July 1, 1987, — must have ten consecutive years of service just prior to retirement.
- Hired after June 30, 1987, but before June 1, 1992, — must have 15 consecutive years of service just prior to retirement or 20 years service with ten years of consecutive years of service just prior to retirement.
- Hired after March 31, 1992, age + consecutive years of qualifying service at retirement greater than or equal to 80.
- Hired after February 28, 2007, 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 June 30, 2009, but before January 1, 2012, 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 (PESPU employees hired on or after January 1, 2012) are not eligible for the Charter School-paid health benefits at retirement. Employees who defer their retirement after separation from service with the Charter School are not eligible for the Charter School-paid health benefits.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Post-Retirement Benefit Plan

The following information relating to the Charter School's other postemployment benefits is contained in the Actuarial Valuation as of July 1, 2011, and is projected at June 30, 2012.

Change in Benefit Obligation

Benefit obligation at beginning of year	\$ 11,039,118
Service cost	689,251
Interest cost	660,010
Change due to plan amendments	-
Change due to gain/loss	-
Benefits paid	88,655
Benefit obligation at end of year	<u>12,477,034</u>

Change in Plan Assets

Fair value of plan assets at beginning of year	-
Expected/actual return of plan assets	-
Employer contributions	88,655
Benefits paid	88,655
Fair value of plan assets at end of year	<u>177,310</u>

Funded Status

Unrecognized net gain/loss	12,310,479
Unrecognized prior service cost	-
Unrecognized transition obligation	(10,487,162)
Net amount recognized	<u>1,823,317</u>

Amount Recognized in Unrestricted Assets

Net actuarial gain/loss	-
Prior service cost	-
Unrecognized net transition obligation	(10,487,162)
Net amount recognized	<u>-</u>

Weight Average Assumptions for Disclosure

Discount rate	6.0%
Initial healthcare trend rate PPO	7.5%
Initial healthcare trend rate HMO	7.0%
Ultimate healthcare trend rate	8.0%

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Post-Retirement Benefit Plan, Continued

The following information relating to the Charter School's other postemployment benefits is contained in the Actuarial Valuation as of July 1, 2011, and is projected at June 30, 2013.

Components of Net Periodic Benefit Cost

Service cost	\$ 689,251
Interest cost	660,010
Expected return on assets	-
Amortization of net (gain)/loss	-
Amortization of prior service cost	-
Amortization of transition obligation	551,956
Net periodic postretirement benefit cost	<u>\$ 1,901,217</u>

Effect of a One Percent Increase in Healthcare Trend

Benefit obligation	\$ 2,343,996
Total service cost and interest cost	\$ 326,859

Effect of a One Percent Decrease in Healthcare Trend

Benefit obligation	\$ (1,838,923)
Total service cost and interest cost	\$ (251,649)

Estimated Future Benefit Payments

Fiscal Year Ending June 30,	Total
2013 Actuals	\$ 88,655
2014	187,934
2015	253,477
2016	322,453
2017	380,163
2018	434,069
2019	498,926
2020	594,956
2021	690,707
2022	779,613

The above information relating to the School's Other Postemployment Benefits are contained in the Palisades Charter High School Actuarial Valuation as of July 1, 2011 for the 2012-2013 fiscal year. The School will obtain a new evaluation every two years.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Post-Retirement Benefit Plan, Continued

In response to and in anticipation of the post-retirement health benefits described, the Charter School has designated \$1,613,089 of the unrestricted net position and \$2,325,199 in retiree benefit reported in current and non-current long term obligations to be used to meet the obligation arising from setting up its own post-retirement health benefit plan.

A summary of the board designations and retiree benefit payable are as follows:

Balance, June 30, 2012	\$ 3,335,942
Current year designations	691,000
Current year benefits paid	(88,655)
Balance, June 30, 2013	<u>\$ 3,938,287</u>

NOTE 13 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Charter School at June 30, 2013.

NOTE 14 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements from the balance sheet date through December 13, 2013, which is the date the consolidated financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year consolidated financial statements.

SUPPLEMENTARY INFORMATION

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Improving America's Schools Act/No Child Left Behind			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 261,660
Title II, Part A, Improving Teacher Quality	84.367	14341	10,261
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	11,595
Individuals with Disabilities Education Act			
Basic Local Assistance, Part B, Section 611	84.027	13379	534,520
Education Jobs Funds	84.410	25152	9,189
Total U.S. Department of Education			<u>827,225</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	156,596
National School Lunch	10.555	13524	263,678
Total Child Nutrition Cluster			<u>420,274</u>
Total U.S. Department of Agriculture			<u>420,274</u>
Total Expenditures of Federal Awards			<u>\$ 1,247,499</u>

See accompanying note to supplementary information.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2013

ORGANIZATION

The Charter School (Charter Number 0037) operates one high school in the Los Angeles Unified School District.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Chris Lee	Teacher/Board Chair	June 30, 2013
Allison Holdorff Polhill	Parent/Board Vice Chair	June 30, 2014
Monica Iannessa	Administrator/Board Secretary	June 30, 2014
Marike Anderson-Dam	Teacher	June 30, 2013
Mystic Thompson	Teacher	June 30, 2014
Polly Bamberger	Parent	June 30, 2014
Mark Epstein	Parent	June 30, 2013
Judy Firth	Classified	June 30, 2013
Jason Cutler	Community	June 30, 2013
Stephanie Inyama	Community	June 30, 2014
Dr. Matthew Wunder	Community	June 30, 2013

ADMINISTRATION

Dr. Pamela Magee (Ex-Officio)	Executive Director/Principal
Gregory Wood (Ex-Officio)	Chief Business Officer
Haley Biscow (Ex-Officio)	Student Representative

See accompanying note to supplementary information.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2013

	Final Report	
	Revised Second Period Report	Annual Report
	<u> </u>	<u> </u>
CHARTER SCHOOL		
Classroom-Based		
Ninth through twelfth	2,632	2,585
Total Classroom-Based	<u>2,632</u>	<u>2,585</u>
Total Charter School		
Ninth through twelfth	2,632	2,585
Total Charter School	<u>2,632</u>	<u>2,585</u>

The Charter School has no Non-Classroom Based Instruction.

See accompanying note to supplementary information.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2012-13	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	*	*	64,800	62,949				
Grade 9					66,364	175	-	Complied
Grade 10					66,364	175	-	Complied
Grade 11					66,364	175	-	Complied
Grade 12					66,364	175	-	Complied

*The Charter School was not operating in 1982-83.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

CHARTER SCHOOL STATEMENT OF FINANCIAL POSITION
(With summarized financial information at June 30, 2012)

JUNE 30, 2013

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,312,985	\$ 2,145,935
Investment - county pool	4,907,382	2,539,670
Accounts receivable	3,767,237	5,852,416
Prepaid expenses and other current assets	33,101	39,545
Total Current Assets	<u>10,020,705</u>	<u>10,577,566</u>
Non-Current Assets:		
Security deposits	30,064	30,064
Fixed assets	10,140,984	9,045,145
Less: accumulated depreciation	3,839,037	3,358,199
Total Non-Current Assets	<u>6,332,011</u>	<u>5,717,010</u>
Total Assets	<u>\$ 16,352,716</u>	<u>\$ 16,294,576</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 2,321,589	\$ 2,430,551
Deferred revenue	8,200	2,700
Current portion of long-term obligations	366,716	407,781
Total Current Liabilities	<u>2,696,505</u>	<u>2,841,032</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	3,265,089	2,901,856
Total Liabilities	<u>5,961,594</u>	<u>5,742,888</u>
NET POSITION		
Unrestricted net assets		
Board designated	1,613,089	1,613,089
General reserves	7,927,661	7,151,045
Total unrestricted net assets	<u>9,540,750</u>	<u>8,764,134</u>
Temporarily restricted	486,039	1,401,579
Permanently restricted	364,333	385,975
Total Net Position	<u>10,391,122</u>	<u>10,551,688</u>
Total Liabilities and Net Position	<u>\$ 16,352,716</u>	<u>\$ 16,294,576</u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

**CHARTER SCHOOL STATEMENT OF ACTIVITIES AND
CHANGES IN NET POSITION**
(With summarized financial information for the year ended June 30, 2012)

FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS					
Unrestricted revenues:					
State apportionments					
General Purpose	\$ 13,070,357	\$ -	\$ -	\$ 13,070,357	\$ 13,268,245
Property Taxes	3,846,108	-	-	3,846,108	3,708,184
Federal revenue	1,247,499	-	-	1,247,499	1,234,832
Other State revenue	4,630,429	-	-	4,630,429	3,959,227
Interest	28,036	-	-	28,036	36,391
Local revenue	1,020,322	-	-	1,020,322	2,066,829
Net release of restricted fund	937,182	(915,540)	(21,642)	-	-
Total Revenues	<u>24,779,933</u>	<u>(915,540)</u>	<u>(21,642)</u>	<u>23,842,751</u>	<u>24,273,708</u>
EXPENSES					
Program services:					
Salaries and benefits	15,217,377	-	-	15,217,377	13,214,733
Student services	1,945,134	-	-	1,945,134	2,105,185
Materials and supplies	196,163	-	-	196,163	337,365
Student nutrition	349,654	-	-	349,654	359,985
Student transportation	625,992	-	-	625,992	706,434
Depreciation	480,838	-	-	480,838	463,778
Non-capital outlay	624,991	-	-	624,991	293,757
Subtotal	<u>19,440,149</u>	<u>-</u>	<u>-</u>	<u>19,440,149</u>	<u>17,481,237</u>
Management and general:					
Salary and benefits	3,369,795	-	-	3,369,795	4,500,257
Insurance	122,039	-	-	122,039	132,547
Operating expenses	989,812	-	-	989,812	690,691
Debt service	81,522	-	-	81,522	100,830
Subtotal	<u>4,563,168</u>	<u>-</u>	<u>-</u>	<u>4,563,168</u>	<u>5,424,325</u>
Total Expenses	<u>24,003,317</u>	<u>-</u>	<u>-</u>	<u>24,003,317</u>	<u>22,905,562</u>
INCREASE (DECREASE) IN UNRESTRICTED NET POSITION	<u>776,616</u>	<u>(915,540)</u>	<u>(21,642)</u>	<u>(160,566)</u>	<u>1,368,146</u>
NET POSITION, BEGINNING OF YEAR	<u>8,764,134</u>	<u>1,401,579</u>	<u>385,975</u>	<u>10,551,688</u>	<u>9,183,542</u>
NET POSITION, END OF YEAR	<u>\$ 9,540,750</u>	<u>\$ 486,039</u>	<u>\$ 364,333</u>	<u>\$ 10,391,122</u>	<u>\$ 10,551,688</u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

CHARTER SCHOOL STATEMENT OF CASH FLOWS
(With summarized financial information for the year ended June 30, 2012)

FOR THE YEAR ENDED JUNE 30, 2013

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in unrestricted net assets	\$ (160,566)	\$ 1,368,146
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	480,838	463,778
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	2,085,179	(735,207)
Prepaid expenses and other current assets	6,444	6,100
Increase (Decrease) in liabilities		
Accounts payable	(108,962)	895,787
Retiree benefit payable	602,346	(691,000)
Deferred revenue	5,500	(4,681)
Net Cash Provided by Operating Activities	<u>2,910,779</u>	<u>1,302,923</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for security deposits - net	-	(30,064)
Capital expenditures	<u>(1,095,839)</u>	<u>(37,096)</u>
Net Cash Used by Investing Activities	<u>(1,095,839)</u>	<u>(67,160)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	<u>(280,178)</u>	<u>(343,721)</u>
Net Cash Used by Financing Activities	<u>(280,178)</u>	<u>(343,721)</u>
NET INCREASE IN CASH	<u>1,534,762</u>	<u>892,042</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,685,605</u>	<u>3,793,563</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,220,367</u>	<u>\$ 4,685,605</u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

ASSOCIATED STUDENT BODY FUNDS STATEMENT OF FINANCIAL POSITION
(With summarized financial information at June 30, 2012)

JUNE 30, 2013

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 269,916	\$ 266,454
Accounts receivable	21,238	7,870
Inventory	23,162	8,246
Prepaid expenses and other current assets	3,850	-
Total Current Assets	<u>318,166</u>	<u>282,570</u>
Non-Current Assets:		
Fixed assets	59,817	59,817
Less: accumulated depreciation	59,817	59,817
Total Non-Current Assets	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 318,166</u>	<u>\$ 282,570</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 115,482	\$ 116,387
Due to student groups	194,699	165,570
Total Liabilities	<u>310,181</u>	<u>281,957</u>
NET ASSETS		
Unrestricted	<u>7,985</u>	<u>613</u>
Total Net Assets	<u>7,985</u>	<u>613</u>
Total Liabilities and Net Assets	<u>\$ 318,166</u>	<u>\$ 282,570</u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

**ASSOCIATED STUDENT BODY FUNDS STATEMENT OF ACTIVITIES AND
 CHANGES IN NET POSITION**

(With summarized financial information for the year ended June 30, 2012)

FOR THE YEAR ENDED JUNE 30, 2013

	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
Admissions	\$ 60,662	\$ 123,425
Collections	121,327	101,497
Commissions	11,588	15,772
Merchandise sales	1,731	143,768
Taxable income	227,536	27,596
Non-taxable income	17,328	26,425
Other income	2,167	20,034
Cost of sales	(106,820)	(94,726)
Total Revenues	<u>335,519</u>	<u>363,791</u>
EXPENSES		
Program services:		
Salaries and benefits	29,827	41,849
Officials	25,771	26,749
Security	5,596	8,088
Bank charges	1,194	1,083
General expenses	265,759	281,670
Total Expenses	<u>328,147</u>	<u>359,439</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>7,372</u>	<u>4,352</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>613</u>	<u>(3,739)</u>
NET ASSETS, END OF YEAR	<u>\$ 7,985</u>	<u>\$ 613</u>

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

ASSOCIATED STUDENT BODY FUNDS STATEMENT OF CASH FLOWS
(With summarized financial information for the year ended June 30, 2012)

FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 7,372	\$ 4,352
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(13,368)	(2,862)
Prepaid expenses and other current assets	(3,850)	13,801
Inventory	(14,916)	(8,246)
Increase (Decrease) in liabilities		
Accounts payable	(905)	29,248
Due to students	29,129	(97,816)
Net Cash Provided (Used) by Operating Activities	3,462	(61,523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,462	(61,523)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	266,454	327,977
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 269,916	\$ 266,454

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Charter School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Local Education Agency Organization Structure

This schedule provides information about the schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the students' progress through the program. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to the Charter School.

Schedule of Instructional Time

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

The Charter School must maintain its instructional minutes at either 1982-83 actual minutes or the 1986-87 requirements; whichever is greater, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Supplementary Financial Statements by Entity

These financial statements include an account of each entity operated by the Charter School.

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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 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, the consolidated financial statements of Palisades Charter High School (the Charter School) (A California Non-Profit Public Benefit Corporation) as of and for the year ended June 30, 2013, and the related notes to the consolidated financial statements, which collectively comprise the Charter School's consolidated financial statements, and have issued our report thereon dated December 13, 2013. The prior year summarized comparative information has been derived from the Charter School's consolidated financial statements report dated December 12, 2012, which were audited by another auditor and expressed unmodified opinions.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying financial statement findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Charter School's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying financial statement findings to be significant deficiencies as items 2013-1, 2013-2, 2013-3, and 2013-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

We noted certain matters that we reported to management of the Charter School in a separate letter dated December 13, 2013.

The Charter School's Response to Findings

The Charter School's response to the findings identified in our audit are described in the accompanying financial statement findings. The Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vannink, Tinn, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Palisades Charter High School
Pacific Palisades, California

Report on Compliance for Each Major Federal Program

We have audited Palisades Charter High School (the Charter School) (A California Non-Profit Public Benefit Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Charter School major Federal programs for the year ended June 30, 2013. The Charter School major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Charter School major Federal programs based on our audit of the types of compliance requirements referred to above. 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 Charter School compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Charter School compliance.

Opinion on Each Major Federal Program

In our opinion, the Charter School complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter School internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 the Charter School 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vannink, Tinn, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Palisades Charter High School
Pacific Palisades, California

Report on State Compliance

We have audited Palisades Charter High School (the Charter School) (A California Non-Profit Public Benefit Corporation) compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the Charter School State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards 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 applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School 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 Charter School compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School compliance with the State laws and regulations applicable to the following items:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Not applicable
Teacher Certification and Misassignments	3	Not applicable
Kindergarten Continuance	3	Not applicable
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Not applicable
County Offices of Education	3	Not applicable
Instructional Materials:		
General Requirements	8	Not applicable
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom Teacher Salaries	1	Not applicable
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Not applicable
School Accountability Report Card	3	Not applicable
Juvenile Court Schools	8	Not applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Not applicable
Option One Classes	3	Not applicable
Option Two Classes	4	Not applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not applicable
Annual Instruction Minutes Classroom-Based	4	Yes

Vannink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>IDEA Basic Local Assistance Entitlement, Part B, Section 611</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unmodified</u>
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PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

The following findings represent significant deficiencies, related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control
60000	Miscellaneous

2013-1 30000

Criteria or Specific Requirements

Implementation of the Financial System (utilization of resource codes)

Condition

It was noted during our review of the PeopleSoft General Ledger System that the Charter school did not perform clean up journal entries to the resource codes for various programs. It was determined that the reconciliation was performed outside of the system.

Recommendation

It is recommended that the Charter school perform cleanup journal entries by resource code within the PeopleSoft General Ledger System for balance sheet and income statement activity by program.

Corrective Action Plan

Management will perform the clean up journal entries within resource codes on the general ledger.

2013-2 60000

Criteria or Specific Requirements

Budgeting Projections

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Condition

During our inquiry with the Business office, it was identified that the Charter School does not maintain an updated listing of all organizations that conduct fund-raising to benefit the Charter School. This creates a budget weakness over outside funding sources.

Recommendation

California *Education Code* section 51521 requires that all organizations that conduct fund-raising to benefit clubs, schools, students or the district at the K-12 level have prior approval from the school's governing board or the board-assigned designee. The code states the following:

No person shall solicit any other person to contribute to any fund or to purchase any item of personal property, upon the representation that the money received is to be used wholly or in part for the benefit of any public school or the student body of any public school, unless such person obtains the prior written approval of either the governing board of the school district in which such solicitation is to be made or the governing board of the school district having jurisdiction over the school or student body represented to be benefited by such solicitation, or the designee of either of such boards.

It is recommended that procedures be created to ensure that at any time that monies are received or equipment is provided from any organizations that an organizational listing is created. This listing would assist the Charter to properly include amount to yearly budget projections.

Corrective Action Plan

Management agrees with recommendation and will bring to the Board's attention for implementation and/or guidance.

2013-3 30000

Criteria or Specific Requirements

Bank Account Reconciliation

Condition

It was noted that formal bank reconciliations are not performed throughout the fiscal year for various accounts on a monthly basis.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Recommendation

It is recommended that formal bank reconciliations are to be performed on a monthly basis. It is also recommended that all adjustment be posted to the general ledger monthly. Although we noted online downloads and review of bank accounts are prepared and identification of any bank errors are posted when noted.

Corrective Action Plan

Palisades Charter High School (PCHS) acknowledges the need to perform reconciliations on a monthly basis. While formal journal entries were not made to the general ledger on a monthly basis, the Chief Business Officer does in fact reconcile each bank account monthly by downloading the transactions on-line. Unusual transactions are followed up with either the bank or personnel responsible for the transactions in this area. The 2012-2013 School Year contained several financial and operational issues precluded the monthly recording of these transactions to the general ledger. As of June 30, 2013, all bank accounts were reconciled and reported on the financial statements of PCHS.

2013-4 30000

Criteria or Specific Requirements

Cash Collections – Receipting Documentation/Formal Written Policy and Procedures

Condition

It was noted during our review of the cash receipting and collection process that although documentation such as cash count forms or copies of checks were maintained as documentation with the deposit, there was no additional documentation provided such as copies of receipts issued or system reports, forwarded to the cash collection clerk that document the amounts recorded into the system. Auditor also noted that there were no discrepancies with the items tested during our review.

It was noted during our review of the cash collection process, the Charter School did not have a formal written policy and procedures over cash collections.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Recommendation

The Business office should require all cash collected by sites have supporting copies of receipts or reports prepared from outside accounting systems. This would assist the cash collection clerk to compare the amount of monies that were forwarded for deposit to the amount of monies that should have been deposited.

It is recommended that the Charter School develop a formal written policy over cash collection process. Policies and Procedures help to create an internal control framework. It is this internal control framework that management will rely upon and that will ensure the Charter School's objectives are being met.

Corrective Action Plan

Management has implemented automated payment at one of our sites. We will also enhance the internal controls at our other site for checks received. Other sites systems considered adequate.

Management agrees with this recommendation given the increased revenue goals of Palisades Charter High School through outside sources.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

PALISADES CHARTER HIGH SCHOOL
(A California Non-Profit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.



Board of Trustees
Palisades Charter High School
(A California Non-Profit Public Benefit Corporation)
Pacific Palisades, California

In planning and performing our audit of the financial statements of Palisades Charter High School (the Charter School) for the year ended June 30, 2013, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following item represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2013, on the financial statements of Palisades Charter High School.

2012-2013 OBSERVATION AND RECOMMENDATIONS

ASSOCIATED STUDENT BODY

Petty Cash Account

Observation

During our review of the Associated Student Body, it was noted that the petty cash account is maintained with a \$300 balance but was noted on the general ledger with the amount of \$100.

Recommendation

It is recommended that any change to the balance of petty cash be recorded immediately to ensure that the financial statements are reported properly.

Charter School Response

The amount of petty cash maintained on hand was reduced to \$100 at the beginning 2013-2014 school year which is accurately reflected on the balance sheet.

Ticket Safeguards

Observation

During the review of the Associated Student Body, the following items were noted over tickets:

1. It was noted that the tickets utilized for ticketed events are not kept in a locked location.
2. It was also noted that no ticket log was maintained.

Recommendation

To ensure that all tickets are safeguarded and accounted for, the following recommendations were made:

1. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.
2. All tickets and tickets logs should be kept in a secure location.

Charter School Response

A ticket log has been created in order to keep an overall log of all of our tickets. Although the Finance Office currently maintains the tickets inside the finance manager's locked office, we agree that an additional security measures can be employed. We will install a pad lock on the cabinet with the tickets in it.

Revenue Potentials

Observation

During our review of the Associated Student Body, auditor noted that revenue potentials are not being utilized.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth. The revenue potential form used at the site should contain four major elements. These are:

1. Potential Income-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks to cost so that profits can be determined.
2. Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. Analysis-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Charter School Response

The Leadership class has implemented a system of revenue potentials and Tally sheets for club fundraisers for the 2013-2014 school year. Sheets were based on the samples provided by the auditors and FCMAT.

1099 Independent Contractor

Observation

During our review of the Associated Student Body, auditor obtained a listing of 1099 Independent Contractor. Auditor requested documentation that the form 1099-MISC were issued. At the time of the audit, auditor was informed that copies of the form 1099-MISCs were not required to be maintained and no additional form of documentation was maintained by the Associated Student Body.

Recommendation

ASB organizations are obligated by law to report student body fund payments by issuing Form 1099-MISC to any independent contractor who is paid a total of \$600 or more in a tax year. Because the Charter School business office also issues 1099s at the end of the calendar year, it is most efficient for the business office to issue all 1099s for the ASBs as well, since they are able to retrieve the information from all school sites. The 1099s must include all payments throughout the entire Charter. The best way to efficiently coordinate this is through the business office. If the ASB has the responsibility to provide the 1099-MISC, we recommend that an item be added to the minutes to document that the 1099-MISC were issued.

Charter School Response

The ASB does issue 1099s to independent contractors who are paid more than \$600 in a calendar year. For the calendar year 2013, PCHS will employ this recommendation relative to including a listing of 1099's issued in the ASB minutes.

Change Fund

Observation

During our review of the Associated Student Body, auditor counted the "Change Fund" and noted that the "Change Fund" had a balance of \$400. Auditor also noted that on the balance sheet the "Change Fund" was reported with a balance of \$2,250.

Recommendation

Auditor recommends that any changes to the carrying balance in the "Change Fund" are documented in the Associated Student Body minutes. The carrying balance should also be stated accurately on the Associated Student Body balance sheet.

Charter School Response

Change fund amount was corrected to properly reflect the amount in the safe as of June 30, 2013. The amount of cash in the safe had been reduced at the beginning of the year, as it was determined that the change fund did not need to be that large. The change fund is kept for our daily change line in the Student Store, and also for cash boxes for ticket sales or club fundraisers.

Student Minutes

Observation

At the time of the audit, it was noted that no student body minutes were provided to auditor by the ASB leadership Advisor. Because no minutes were provided, auditor was not able to determine if Associated Student Body minutes were complete. Auditor was also informed that Associated Student Body minutes to not include detail expenditures and deposit for student approval.

Recommendation

Auditor determined that a copy of the Associated Student Body minutes should be maintained by the Associated Student Body office. Auditor also recommends that the Associated Student Body should review the FCMAT Associated Student Body Manual to ensure that minutes include all required information.

Charter School Response

The Auditors were put in contact with Mr. Chris Lee the ASB Leadership class teacher in order to coordinate and obtaining the ASB Minutes. The Finance Manager, Mr. Lee, and the ASB officers have been consulting the FCMAT ASB manual to ensure that proper minutes are being maintained. We will create a procedure for copies of Minutes to be maintained in the Finance Office for complete record keeping and reference.

Cash Disbursements

Observation

During our review of Associated Student Body cash disbursements, it was determined that there is no student approval on disbursements.

Recommendation

In order to ensure compliance with the California Educational Code, the site should revise the request for payment form to include a space for all three required approval signatures. These signatures are Charter appointed representatives, an advisor and a student representative.

Charter School Response

Procedures for cash disbursements have been corrected to include the Student Body President or Treasurer signature.

Financial Statements

Observation

During our inquiry with the Associated Student Body, auditor was informed that Financial Statements are provided to the Finance committee but are not provided to the Associated Student Body council and are not approved in the minutes.

Recommendation

The Associated Student Body bookkeeper is responsible to many customers, each of which has a unique set of needs. The reporting responsibilities for each are also unique.

1. Site Administrator: The site administrator must review and sign for approval all financial reports throughout the year and ensure that all required reports and submissions are made to the business office as requested.
2. Student Council: For organized Associated Student Body's, the student council must approve and enter into the minutes the monthly and annual financial reports.
3. Business Office: The business office must receive financial statements at least quarterly.

Charter School Response

Financial statements are provided to clubs upon request at any time. We have lots of clubs, many of which are only active for a portion of the year, and therefore we take the approach of providing information when requested by them. For the larger ASB organization we have a monthly Budget and Finance Committee meeting where financials are presented and noted in the minutes. For the 2013-2014 School Year, the Finance Office will provide monthly financial statements to the ASB council for review.

Cash Collection Procedures

Observation

In our testing of the cash receipts system, auditor noted that although a cash count forms was maintained as backup document for deposits, no additional documentation was provided to the Associated Student Body bookkeeper that documents to the source of the deposit.

Recommendation

All cash collections should be traceable to the source. If club advisors collecting cash are not issued receipt books, a tally sheet system should be utilized for all cash collected from the students or individuals. Tally sheets should include student names and initials to document the total amount of monies that were collected. Associated Student Body bookkeeper should compare the tally sheet to the cash count form to ensure that cash counted agrees with the cash that should have been collected.

Charter School Response

Club advisors are issued receipt books for general collections. We are implementing a tally sheet system for when they have small fundraisers to be matched with deposited amounts.

Bank Reconciliation

Observation

Although the bank reconciliation are reviewed by the CBO (evident by his signatures), there is no documentation of the time of review, therefore auditor could not determine if the review was done on a timely manner.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis as well as included in the Associated Student Body council minutes to document that reconciliation is performed and reviewed on a timely basis.

Charter School Response

There actually is a time stamp on the top left hand corner of each bank reconciliation. However we can make it a point to also add a date next to the signatures to make it more clear as to when the reconciliations were completed and reviewed.

Segregation of Duties

Observation

During a review of Associated Student Body reporting and cash collections, Auditor noted that individuals, who collect cash, also have access to the QuickBooks Reporting System, demonstrating a lack of segregation of duties.

Recommendation

Auditor recommends that the site reevaluate the cash collection process, to ensure that individuals with access to cash do not have the ability to record cash collections in the General Ledger System. Adequate segregation of duties is recommended to ensure safeguarding over ASB funds.

Charter School Response

With only two employees in the ASB Finance Office it is hard to separate all of the duties. We have found it best to implement a system where both ASB Clerk and Finance Manager do count cash, double check deposits, and check reports. If the ASB Clerk did not have access to the QuickBooks software, then only one person would be left to do all of the accounting, A/P, A/R and reconciliations. Our current separation with the addition of double counting cash makes it safe for both individuals.

Fundraising

Observation

During a review of the Associated Student Body fundraising activities, auditor noted that the Student Body does not have a system in place to track or confirm donations in accordance with Nonprofit Organization reporting guidelines.

Recommendation

Auditor recommends the site provide formal documentation acknowledging all outside donations for better safeguarding of cash and transparency of ASB acquired funds reflected in the financial statements.

Charter School Response

Currently the ASB relies on Club Sponsors and Athletic Coaches to let us know which checks are donations that require recording and acknowledgment. Most of the checks that come in are from parents purchasing items rather than actual donations.

Fund Balance

Observation

During a review of the Associated Student Body Financial Statements, auditor noted that the ending fund balance for the ASB is low, demonstrating a financial weakness. Auditor noted an increase of approximately \$7,000 in 2012-2013.

Recommendation

Auditor recommends the site provide thorough monitoring of cash flow performed by upper management, individual Trust Advisors, and Student Body Council. This will ensure funds are monitored to avoid debt or further financial weaknesses.

Charter School Response

While our net equity at the end of the year is low, it is not negative and therefore we have no problem paying our liabilities. Also the ASB is a non-profit and operates on a policy of trying to spend the money raised in the current year on the students of the current year, rather than rolling over large amounts to following years.

Financial Reporting

Observation

During a review of Associated Student Body Financial Statements, auditor noted that the "Cost of Goods Sold" is incorrectly recorded. Per review of detail, auditor noted that of the two (2) Yearbook invoices received one (1) invoice was recorded as COGS in the amount of \$32,500.00, and the other recorded as General Expense in the amount of \$42,539.50

Recommendation

Auditor recommends that site monitor recorded transaction to ensure that amounts are accurately recorded in the General Ledger System to improve accuracy of financial reporting.

Charter School Response

This situation arose due to the turnover in the ASB Clerk position who mis-posted the transaction.

Financial Reporting

Observation

After reviewing the chart of accounts over the general Associated Student Body, it was determined that accounts structure may not be adequate.

Recommendation

Auditor recommends that a review of the chart of accounts should be performed to determine if the accounts are adequate for the activity of the general Associated Student Body. We recommended the Charter School provide the Budget Committee and the Student Council alternative formats to enhance the reporting.

Charter School Response

The Charter School will review the alternative options and work with the Student Council and Budget Committee to implement revision.

CHARTER SCHOOL

Time Sheet Documentation of Approval

Observation

During our review of the payroll and personnel procedures, auditor determined that hourly employee's timesheets are reviewed for reasonableness. However, it was determined that no signature is noted on the timesheet to document that the review was performed. Auditor did not get any indication that any material discrepancies have occurred during the fiscal year.

Recommendation

It is recommended that the personnel responsible for reviewing, sign the timesheets to document clearly that timesheets have been reviewed for proper recording of vacation and sick days taken during a payroll period or find an alternative method of approval such as a timekeeping system with digital approval.

Charter School Response

Palisades Charter High School (PCHS) utilizes a time card system that requires all employees to sign in on a daily basis. The time cards are monitored on a daily basis by the timekeeper in the main office. Using this “Positive pay system”, PCHS requires any extra pay (Overtime, Auxiliaries or Stipends) to be approved by the appropriate supervisor on separate approval forms, not the time card. Any time missed by an employee immediately is given an illness card to identify whether time not worked will/can be claim against available illness balances. This card requires the employee’s certification.

PCHS is also in the process of identifying and implementing an automated time and attendance system that will make this process more efficient.

We will review the status of the current year comments during our next audit engagement.

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013