



**PALISADES CHARTER  
HIGH SCHOOL**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2017**

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

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**JUNE 30, 2017**

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VAVRINEK, TRINE, DAY & CO., LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board  
Palisades Charter High School  
(A California Nonprofit Public Benefit Corporation)  
Pacific Palisades, California

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Palisades Charter High School (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### ***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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements.

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

## ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Palisades Charter High School, as of June 30, 2017, 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.

## ***Emphasis of Matter***

As discussed in Note 16 to the consolidated financial statements, the Charter School has restated beginning net assets to account for the liability of the Charter School's other post-employment benefits (OPEB) obligation in accordance with the actuarial study. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

The prior-year comparative information has been derived from the Charter School's consolidated financial statement report dated December 8, 2016, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 consolidated 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 and other accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 15, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School's 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.

*Vannink, Tinn, Day & Co., LLP*

Rancho Cucamonga, California  
December 15, 2017

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(With summarized financial information at June 30, 2016)**

**JUNE 30, 2017**

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 1,686,255	\$ 1,084,191
Investment - county pool	8,758,917	8,051,506
Accounts receivable	626,070	689,670
Inventory	5,481	5,481
Prepaid expenses and other current assets	293,629	276,172
Total Current Assets	11,370,352	10,107,020
Non-Current Assets:		
Fixed assets	13,060,066	12,386,119
Less: accumulated depreciation	(5,925,427)	(5,331,132)
Total Non-Current Assets	7,134,639	7,054,987
Total Assets	\$ 18,504,991	\$ 17,162,007
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 3,347,920	\$ 2,548,940
Due to student groups	294,547	254,839
Deferred revenue	399,023	412,737
Current portion of long-term obligations	268,927	203,444
Total Current Liabilities	4,310,417	3,419,960
Long-Term Obligations:		
Non-current portion of long-term obligations	17,032,371	15,860,852
Total Liabilities	21,342,788	19,280,812
<b>NET ASSETS (Deficit)</b>		
Unrestricted net assets		
Board designated for OPEB	2,005,926	1,926,172
Unfunded deficit OPEB	(15,295,372)	(14,138,124)
General reserves	9,986,226	9,667,046
Total unrestricted net assets	(3,303,220)	(2,544,906)
Temporarily restricted	150,969	115,099
Permanently restricted	314,454	311,002
Total Net Assets (Deficit)	(2,837,797)	(2,118,805)
Total Liabilities and Net Assets	\$ 18,504,991	\$ 17,162,007

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

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**(With summarized financial information for the year ended June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	(As Restated) 2016
<b>REVENUES</b>					
Local Control Funding Formula	\$ 25,626,699	\$ -	\$ -	\$ 25,626,699	\$ 24,442,065
Federal revenues	1,190,729	-	-	1,190,729	1,118,372
Other State revenues	4,864,012	-	-	4,864,012	4,821,048
Interest	78,560	-	-	78,560	48,308
Local revenues	2,166,403	252,755	18,626	2,437,784	2,399,361
Net assets released from restrictions	232,059	(216,885)	(15,174)	-	-
<b>Total Revenues</b>	<b>34,158,462</b>	<b>35,870</b>	<b>3,452</b>	<b>34,197,784</b>	<b>32,829,154</b>
<b>EXPENSES</b>					
Program services:					
Salaries and benefits	22,282,124	-	-	22,282,124	20,609,807
Student services	2,581,820	-	-	2,581,820	2,759,184
Materials and supplies	463,217	-	-	463,217	624,025
Student nutrition	193,188	-	-	193,188	215,139
Student transportation	643,324	-	-	643,324	401,076
Depreciation	594,295	-	-	594,295	471,117
Non-capital outlay	878,367	-	-	878,367	936,704
<b>Subtotal</b>	<b>27,636,335</b>	<b>-</b>	<b>-</b>	<b>27,636,335</b>	<b>26,017,052</b>
Management and general:					
Salary and benefits	4,666,390	-	-	4,666,390	4,817,157
Insurance	157,958	-	-	157,958	147,225
Operating expenses	2,456,093	-	-	2,456,093	2,398,285
Debt service	-	-	-	-	41,312
<b>Subtotal</b>	<b>7,280,441</b>	<b>-</b>	<b>-</b>	<b>7,280,441</b>	<b>7,403,979</b>
<b>Total Expenses</b>	<b>34,916,776</b>	<b>-</b>	<b>-</b>	<b>34,916,776</b>	<b>33,421,031</b>
<b>CHANGE IN NET ASSETS</b>	<b>(758,314)</b>	<b>35,870</b>	<b>3,452</b>	<b>(718,992)</b>	<b>(591,877)</b>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<b>(2,544,906)</b>	<b>115,099</b>	<b>311,002</b>	<b>(2,118,805)</b>	<b>9,313,227</b>
<b>PRIOR PERIOD RESTATEMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,840,155)</b>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR - AS RESTATED</b>	<b>(2,544,906)</b>	<b>115,099</b>	<b>311,002</b>	<b>(2,118,805)</b>	<b>(1,526,928)</b>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<b>\$ (3,303,220)</b>	<b>\$ 150,969</b>	<b>\$ 314,454</b>	<b>\$ (2,837,797)</b>	<b>\$ (2,118,805)</b>

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

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(With summarized financial information for the year ended June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in unrestricted net assets</b>	\$ (718,992)	\$ (591,877)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	594,295	471,117
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	63,600	(295,937)
Prepaid expenses and other current assets	(17,457)	(100,283)
Inventory	-	1,944
Increase (Decrease) in liabilities		
Accounts payable	798,980	106,102
Retiree benefit payable	1,237,002	1,759,754
Due to students groups	39,708	(5,578)
Deferred revenue	(13,714)	375,201
Net Cash Provided by Operating Activities	<u>1,983,422</u>	<u>1,720,443</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(673,947)</u>	<u>(648,710)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan principal payments	<u>-</u>	<u>(955,115)</u>
<b>NET INCREASE IN CASH</b>	1,309,475	116,618
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>9,135,697</u>	<u>9,019,079</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 10,445,172</u></u>	<u><u>\$ 9,135,697</u></u>
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	<u><u>\$ -</u></u>	<u><u>\$ 41,312</u></u>

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



**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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***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 2015 for a period of five years ending on June 30, 2020.

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 approximately 2,900 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.

The accompanying consolidated financial statements include the accounts of the Charter School and the Associated Student Body accounts.

***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 assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had temporarily and permanently restricted net assets at June 30, 2017. In addition, the Charter School is required to present a Statement of Cash Flows.

**Accounting Method - Basis of Accounting**

The consolidated 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**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**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 assets 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 assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets 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 a non-profit public benefit corporation that is 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 and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). It is 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. Income tax returns for 2013 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. 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 income tax positions are required.

**Cash and Cash Equivalents**

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

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**Donated Property and Equipment**

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

Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the 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 assets to unrestricted net assets at that time.

**Property and Equipment**

Property and equipment are recorded at cost, or estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred. The 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, 2017, 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 two to 30 years. Depreciation expense for the year ended June 30, 2017, was \$594,295.

**Reclassification of Comparative Statements**

The Charter School reclassified certain expenses as program service or management and general for the 2017 fiscal year. Accordingly, these reclassifications have been revised for the presentation of 2016.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**Prior Year Comparative Financial Information**

The consolidated financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's consolidated financial statements for the year ended June 30, 2016, from which the comparative information was derived.

**Use of Estimates**

The preparation of consolidated 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 Assets**

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. At June 30, 2017, the Charter School had \$2,005,926 in Board designated unrestricted net assets.

**Consolidation**

The consolidated financial statements include the accounts of Palisades Charter High School and the Associated Student Body accounts.

**NOTE 3 - CASH**

Cash at June 30, 2017, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 1,686,255</u>	<u>\$ 1,712,844</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, 2017, the Charter School had a balance of \$1,463,192 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE 4 - INVESTMENTS**

Investments at June 30, 2017, consisted of the following:

	Reported Amount	Fair Market Value
Los Angeles County Investment Pool	\$ 8,758,917	\$ 8,706,775

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.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Charter School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Charter School manages its exposure to interest rate risk by investing in the Los Angeles County Treasury Investment Pool.

**Credit Risk**

Credit risk is the risk an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Charter School's investment in the Los Angeles County Investment Pool is not required to be rated, nor have they been rated as of June 30, 2017.

**Weighted Average Maturity**

The Charter School monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the Charter School's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
Los Angeles County Investment Pool	\$ 8,706,775	672

**NOTE 5 - FAIR MARKET VALUE MEASUREMENTS**

The Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, 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.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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The following provides a summary of the hierarchical levels 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 asset 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.

Uncategorized - Investments in the Los Angeles County Investment Pool are not measured using the input levels above because the Charter School's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The Charter School's fair value measurements are as follows at June 30, 2017:

	<u>Fair Value</u>	<u>Uncategorized</u>
Los Angeles County Investment Pool	<u>\$ 8,706,775</u>	<u>\$ 8,706,775</u>

All assets have been valued using a market approach, with quoted market prices.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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***NOTE 6 - ACCOUNTS RECEIVABLE***

Accounts receivable at June 30, 2017, consisted of the following:

Local Control Funding Formula	\$	24,722
Federal programs		83,385
State programs		2,256
Lottery		124,093
Local and miscellaneous		391,614
Total Accounts Receivable	\$	<u>626,070</u>

***NOTE 7 - PREPAID EXPENSES***

Prepaid expenses at June 30, 2017, consisted of the following:

Prepaid rent, insurance, and miscellaneous vendors	\$	<u>293,629</u>
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***NOTE 8 - FIXED ASSETS***

Fixed assets at June 30, 2017, consisted of the following:

Building improvements	\$	10,651,257
Equipment		2,037,097
Work in progress		371,712
Subtotal		<u>13,060,066</u>
Less: accumulated depreciation		<u>(5,925,427)</u>
Total Fixed Assets	\$	<u>7,134,639</u>

During the year ended June 30, 2017, \$594,295 was charged to depreciation expense.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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***NOTE 9 - ACCOUNTS PAYABLE***

Accounts payable at June 30, 2017, consisted of the following:

Salaries and taxes*	\$	1,827,806
Compensated absences		75,607
Vendors payable		<u>1,444,507</u>
Total Accounts Payable	\$	<u><u>3,347,920</u></u>

\*Salaries and benefits do not include post-employment benefit payable as in previous years. This liability is reflected in the current and non-current long-term obligations.

***NOTE 10 - DEFERRED REVENUE***

Deferred revenue at June 30, 2017, consisted of the following:

State source	\$	393,749
Local source		<u>5,274</u>
Total Deferred Revenue	\$	<u><u>399,023</u></u>

***NOTE 11 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS***

Temporarily restricted net assets at June 30, 2017 are as follows:

Renovation and technology	\$	149,677
Drama program		<u>1,292</u>
Total Temporarily Restricted Net Assets	\$	<u><u>150,969</u></u>

Permanently restricted net assets at June 30, 2017 are as follows:

Scholarship Fund	\$	<u><u>314,454</u></u>
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**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE 12 - LONG-TERM OBLIGATIONS**

**Postemployment Benefits**

Management has reported \$17,301,298 as long-term obligations for post-employment benefits shown as current of \$268,927 and non-current obligation of \$17,032,371. Additionally, the Charter School has a board designation of post-employment benefits of \$2,005,926 reported in the ending net asset balance.

Future estimated payments are as follows:

<u>Repayment Year</u>	<u>Estimated Payments</u>
2018	\$ 268,927
2019	289,305
2020	326,623
2021	358,775
2022	389,385
2023-2027	2,745,616
2028-2032	5,450,362
2033-2037	7,472,305
Total	<u>17,301,298</u>
Less Current Portion	<u>(268,927)</u>
Net Long-Term Obligations	<u><u>\$ 17,032,371</u></u>

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Academic 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.

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

**PALISADES CHARTER HIGH SCHOOL**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2016, total actuarial value of assets are \$170 billion, the actuarial obligation is \$267 billion, contributions from all employers totaled \$3.3 billion, and the plan is 63.7 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

**Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

**Contributions**

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the Charter School's total contributions were \$1,711,339.

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

**PALISADES CHARTER HIGH SCHOOL**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total Charter School contributions were \$499,538.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**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 \$1,111,359 (8.828 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 consolidated financial statements.

**NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS**

**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 111 eligible active employees. Additionally, as of June 30, 2017, there were 22 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.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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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 of 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, but before January 1, 2012, 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 after 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 Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**Post-Retirement Benefit Plan**

The following information relating to the Charter School's other post-employment benefits is contained in the Actuarial Valuation as of July 1, 2015, and is projected at June 30, 2017.

**Change in Benefit Obligation**

Benefit obligation at beginning of year	\$ 16,064,296
Service cost	659,405
Interest cost	781,041
Change due to plan amendments	-
Change due to gain/loss	-
Actual benefits paid	(203,444)
Benefit obligation at end of year	<u>17,301,298</u>

**Change in Plan Assets**

Fair value of plan assets at beginning of year	-
Expected/actual return of plan assets	-
Employer contributions	203,444
Benefits paid	(203,444)
Fair value of plan assets at end of year	<u>-</u>

**Funded Status**

Funded balance	(17,301,298)
Unrecognized net gain(loss)	670,260
Unrecognized prior service cost	-
Unrecognized transition obligation	7,727,382
Net amount recognized	<u>(8,903,656)</u>

**Amount Recognized in Unrestricted Assets**

Net actuarial gain(loss)	670,260
Prior service cost	-
Unrecognized net transition obligation	7,727,382
Net amount recognized	<u>8,397,642</u>

**Weight Average Assumptions for Disclosure**

Discount rate	5.0%
Initial healthcare trend rate	7.0%
Ultimate healthcare trend rate	5.0%

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**Post-Retirement Benefit Plan, Continued**

The following information relating to the Charter School's other post-employment benefits is contained in the Actuarial Valuation as of July 1, 2015, and is projected at June 30, 2017.

**Components of Net Periodic Benefit Cost**

Service cost	\$ 659,405
Interest cost	781,041
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>\$ 1,992,402</u>

**Effect of a One Percent Increase in Healthcare Trend**

Benefit obligation	\$ 3,271,207
Total service cost and interest cost	\$ 346,525

**Effect of a One Percent Decrease in Healthcare Trend**

Benefit obligation	\$ (2,595,586)
Total service cost and interest cost	\$ (269,928)

**Estimated Future Benefit Payments**

Fiscal Year Ending June 30,	Total
2017 Actuals	\$ 203,444
2018	268,927
2019	289,305
2020	326,623
2021	358,775
2022	389,385
2023	421,118
2024	469,834
2025	530,113
2026	609,247



**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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The above information relating to the Charter School's Other Postemployment Benefits are contained in the Palisades Charter High School Actuarial Valuation as of July 1, 2015, for the 2016-2017 fiscal year. The Charter School will obtain a new evaluation every two years.

**Post-Retirement Benefit Plan, Continued**

In response to and in anticipation of the post-retirement health benefits described, the Charter School has designated \$2,005,926 of the unrestricted net assets and \$17,301,298 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.

During 2015-2016 the Board approved an internal borrowing agreement to payoff outside debt by transferring designated net assets to unrestricted net assets. The amount required to pay off outstanding debt on the Aquatics Center project was \$835,000, with monthly payments of \$15,667 and interest of 4.5 percent due April 2021. At June 30, 2017, the total Loan Receivable is \$656,593.

A summary of the board designations and retiree benefit payable for post-retirement health benefits are as follows:

OPEB Obligation, June 30, 2016	\$ 16,064,296
Current year additions to benefit payable	1,440,446
Current year benefits paid	<u>(203,444)</u>
OPEB Obligation, June 30, 2017	<u>\$ 17,301,298</u>
Board Designated for OPEB, June 30, 2016	\$ 1,926,172
Current year interest revenue earned	86,504
Current year actuarial expenses paid	<u>(6,750)</u>
Board Designated for OPEB, June 30, 2017	<u>\$ 2,005,926</u>
Board Designated Pool Loan, June 30, 2016	\$ 810,082
Repayment of loan	<u>(153,489)</u>
*Board Designated Pool Loan, June 30, 2017	<u>\$ 656,593</u>
*Funds borrowed against the designated OPEB net assets	

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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***NOTE 15 - 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, 2017.

***NOTE 16 - PRIOR PERIOD RESTATEMENT***

The Charter School restated its beginning net assets to more accurately reflect the Charter School's other post-employment benefits obligations. As a result, the effect on the current fiscal year is as follows:

Net Assets - Beginning (July 1, 2015)	\$ 9,313,227
Understatement of other post-employment benefits obligations	<u>(10,840,155)</u>
Net Assets - Beginning (July 1, 2015), as Restated	<u><u>\$ (1,526,928)</u></u>

***NOTE 17 - 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 through December 15, 2017, 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.

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***SUPPLEMENTARY INFORMATION***

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**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through	
		Entity Identifying Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 254,805
Title I, Part G, Advance Placement (AP) Test Fee Reimbursement Program	84.330B	14831	13,186
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	6,797
Basic Local Assistance, Part B, Section 611	84.027	13379	549,373
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	28,120
Passed through California Department of Rehabilitation:			
State Vocational Rehabilitation Services Program	84.126A	[1]	13,173
Total U.S. Department of Education			<u>865,454</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	37,823
Total U.S. Department of Health and Human Services			<u>37,823</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster:			
Basic School Breakfast Program	10.553	13525	5,682
Especially Needy Breakfast	10.553	13526	99,243
National School Lunch	10.555	13524	182,527
Total Child Nutrition Cluster			<u>287,452</u>
Total U.S. Department of Agriculture			<u>287,452</u>
Total Expenditures of Federal Awards			<u>\$ 1,190,729</u>

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**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>
Emilie Larew	Teacher/Board Chair	June 30, 2018
Leslie Wooley	Community/ Vice Chair	June 30, 2018
Dara Williams	Parent / Board Secretary	June 30, 2017
Rocky Montz	Management	June 30, 2018
Susan Ackerman	Teacher	June 30, 2017
Robert Rene	Parent	June 30, 2018
Deanna Hamilton	Parent	June 30, 2018
Andrew Paris	Classified	June 30, 2018
Ellen Pfahler	Community	June 30, 2017
Emily Hirsch	Community	June 30, 2017

**ADMINISTRATION**

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

See accompanying note to supplementary information.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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	Final Report	
	Revised Second Period Report	Annual Report
Regular ADA		
Ninth through twelfth	2,838.75	2,831.04
Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	1.02	0.69
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	-	0.22
Total Regular ADA	<u>2,839.77</u>	<u>2,831.95</u>
Classroom based ADA		
Regular ADA		
Ninth through twelfth	2,838.75	2,831.04
Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	1.02	0.69
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	-	0.22
Total Classroom Based ADA	<u>2,839.77</u>	<u>2,831.95</u>

The Charter School did not operate a Non-Classroom Based Instruction program.

See accompanying note to supplementary information.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Grade Level	1986-87	2016-17	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		66,864	175	N/A	Complied
Grade 10		66,864	175	N/A	Complied
Grade 11		66,864	175	N/A	Complied
Grade 12		66,864	175	N/A	Complied

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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Summarized below are the net assets balance reconciliations between the Unaudited Financial Report and the audited financial statements.

NET ASSETS (DEFICIT) BALANCE

Balance, June 30, 2017, Unaudited Actuals	\$ 9,969,486
Increase in:	
Long-term obligations - other post-employment benefits	<u>(12,807,283)</u>
Balance, June 30, 2017, Audited Financial Statement	<u>\$ (2,837,797)</u>



**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**CHARTER SCHOOL STATEMENT OF FINANCIAL POSITION**  
**(With summarized financial information at June 30, 2016)**

**JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,247,247	\$ 796,722
Investment - county pool	8,758,917	8,051,506
Accounts receivable	625,477	689,057
Prepaid expenses and other current assets	287,274	270,672
Total Current Assets	<u>10,918,915</u>	<u>9,807,957</u>
Non-Current Assets:		
Fixed assets	13,000,249	12,326,302
Less: accumulated depreciation	<u>(5,865,610)</u>	<u>(5,271,315)</u>
Total Non-Current Assets	<u>7,134,639</u>	<u>7,054,987</u>
Total Assets	<u>\$ 18,053,554</u>	<u>\$ 16,862,944</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 3,216,444	\$ 2,528,842
Deferred revenue	397,403	411,117
Current portion of long-term obligations	268,927	203,444
Total Current Liabilities	<u>3,882,774</u>	<u>3,143,403</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>17,032,371</u>	<u>15,860,852</u>
Total Liabilities	<u>20,915,145</u>	<u>19,004,255</u>
<b>NET ASSETS</b>		
Unrestricted net assets		
Board designated for OPEB	2,005,926	1,926,172
Unfunded deficit OPEB	(15,295,372)	(14,138,124)
General reserves	9,962,432	9,644,540
Total unrestricted net assets	<u>(3,327,014)</u>	<u>(2,567,412)</u>
Temporarily restricted	150,969	115,099
Permanently restricted	314,454	311,002
Total Net Assets	<u>(2,861,591)</u>	<u>(2,141,311)</u>
Total Liabilities and Net Assets	<u>\$ 18,053,554</u>	<u>\$ 16,862,944</u>

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**CHARTER SCHOOL STATEMENT OF ACTIVITIES**  
**(With summarized financial information for the year ended June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	(As Restated) 2016
<b>REVENUES</b>					
Local Control Funding Formula	\$ 25,626,699	\$ -	\$ -	\$ 25,626,699	\$ 24,442,065
Federal revenue	1,190,729	-	-	1,190,729	1,118,372
Other State revenue	4,864,012	-	-	4,864,012	4,821,048
Interest	78,560	-	-	78,560	48,308
Local revenue	1,751,843	252,755	18,626	2,023,224	1,992,775
Net release of restricted funds	232,059	(216,885)	(15,174)	-	-
Total Revenues	33,743,902	35,870	3,452	33,783,224	32,422,568
<b>EXPENSES</b>					
Program services:					
Salaries and benefits	22,258,518	-	-	22,258,518	20,595,498
Student services	2,400,455	-	-	2,400,455	2,736,077
Materials and supplies	463,217	-	-	463,217	624,025
Student nutrition	193,188	-	-	193,188	215,139
Student transportation	643,324	-	-	643,324	401,076
Depreciation	594,295	-	-	594,295	471,117
Non-capital outlay	878,367	-	-	878,367	936,704
Subtotal	27,431,364	-	-	27,431,364	25,979,636
Management and general:					
Salary and benefits	4,666,390	-	-	4,666,390	4,817,157
Insurance	157,958	-	-	157,958	147,225
Operating expenses	2,247,792	-	-	2,247,792	2,042,609
Debt service	-	-	-	-	41,312
Subtotal	7,072,140	-	-	7,072,140	7,048,303
Total Expenses	34,503,504	-	-	34,503,504	33,027,939
<b>CHANGE IN NET ASSETS</b>	(759,602)	35,870	3,452	(720,280)	(605,371)
<b>NET ASSETS, BEGINNING OF YEAR</b>	(2,567,412)	115,099	311,002	(2,141,311)	9,304,215
<b>PRIOR PERIOD ADJUSTMENT</b>	-	-	-	-	(10,840,155)
<b>NET ASSETS, BEGINNING OF YEAR - AS RESTATED</b>	(2,567,412)	115,099	311,002	(2,141,311)	(1,535,940)
<b>NET ASSETS, END OF YEAR</b>	\$ (3,327,014)	\$ 150,969	\$ 314,454	\$ (2,861,591)	\$ (2,141,311)

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**CHARTER SCHOOL STATEMENT OF CASH FLOWS**  
**(With summarized financial information for the year ended June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in net assets</b>	\$ (720,280)	\$ (605,371)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	594,295	471,117
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	63,580	(297,885)
Prepaid expenses and other current assets	(16,602)	(102,455)
Increase (Decrease) in liabilities		
Accounts payable	687,602	178,526
Retiree benefit payable	1,237,002	1,759,754
Deferred revenue	(13,714)	388,646
Net Cash Provided by Operating Activities	<u>1,831,883</u>	<u>1,792,332</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(673,947)</u>	<u>(648,710)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan principal payments	<u>-</u>	<u>(955,115)</u>
<b>NET INCREASE IN CASH</b>	1,157,936	188,507
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>8,848,228</u>	<u>8,659,721</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 10,006,164</u></u>	<u><u>\$ 8,848,228</u></u>
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	<u><u>\$ -</u></u>	<u><u>\$ 41,312</u></u>

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**ASSOCIATED STUDENT BODY FUNDS STATEMENT OF FINANCIAL POSITION**  
**(With summarized financial information at June 30, 2016)**

**JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 439,008	\$ 287,469
Accounts receivable	593	613
Inventory	5,481	5,481
Prepaid expenses and other current assets	<u>6,355</u>	<u>5,500</u>
Total Current Assets	<u>451,437</u>	<u>299,063</u>
Non-Current Assets:		
Fixed assets	59,817	59,817
Less: accumulated depreciation	<u>(59,817)</u>	<u>(59,817)</u>
Total Non-Current Assets	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 451,437</u>	<u>\$ 299,063</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 131,476	\$ 20,098
Due to student groups	294,547	254,839
Deferred revenue	<u>1,620</u>	<u>1,620</u>
Total Liabilities	<u>427,643</u>	<u>276,557</u>
<b>NET ASSETS</b>		
Unrestricted	<u>23,794</u>	<u>22,506</u>
Total Liabilities and Net Assets	<u>\$ 451,437</u>	<u>\$ 299,063</u>

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**ASSOCIATED STUDENT BODY FUNDS STATEMENT OF ACTIVITIES**  
**(With summarized financial information for the year ended June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Admissions	\$ 118,748	\$ 49,049
Collections	20,738	26,953
Commissions	14,353	17,821
Merchandise sales	180,460	269,930
Non-taxable income	42,930	33,830
Other income	37,331	9,003
Cost of sales	<u>(52,225)</u>	<u>(53,617)</u>
Total Revenues	<u>362,335</u>	<u>352,969</u>
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	23,606	14,309
Officials	33,354	23,000
Tournament Fees	117	107
Security	22,883	16,656
Bank charges	1,214	379
General expenses	<u>279,873</u>	<u>285,024</u>
Total Expenses	<u>361,047</u>	<u>339,475</u>
<b>CHANGE IN NET ASSETS</b>	1,288	13,494
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>22,506</u>	<u>9,012</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 23,794</u>	<u>\$ 22,506</u>

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**ASSOCIATED STUDENT BODY FUNDS STATEMENT OF CASH FLOWS**  
**(With summarized financial information for the year ended June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in unrestricted net assets</b>	\$ 1,288	\$ 13,494
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	20	1,948
Prepaid expenses and other current assets	(855)	2,172
Inventory	-	1,944
Increase (Decrease) in liabilities		
Accounts payable	111,378	(72,424)
Due to students	39,708	(5,578)
Deferred revenue	-	(13,445)
Net Cash Provided by (Used in) Operating Activities	<u>151,539</u>	<u>(71,889)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	151,539	(71,889)
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 439,008</u>	<u>\$ 287,469</u>

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF FINANCIAL POSITION**  
**OTHER POSTEMPLOYMENT BENEFITS ADJUSTMENT**

**FOR THE YEAR ENDED JUNE 30, 2017**

	Final Combined Audit Report	Combined Audit Pre-OPEB Adjustment
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 1,686,255	\$ 1,686,255
Investment - county pool	8,758,917	8,758,917
Accounts receivable	626,070	626,070
Inventory	5,481	5,481
Prepaid expenses and other current assets	293,629	293,629
Total Current Assets	11,370,352	11,370,352
Non-Current Assets:		
Fixed assets	13,060,066	13,060,066
Less: accumulated depreciation	(5,925,427)	(5,925,427)
Total Non-Current Assets	7,134,639	7,134,639
Total Assets	\$ 18,504,991	\$ 18,504,991
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 3,347,920	\$ 3,347,920
Due to student groups	294,547	294,547
Deferred revenue	399,023	399,023
Current portion of long-term obligations	268,927	268,927
Total Current Liabilities	4,310,417	4,310,417
Long-Term Obligations:		
Non-current portion of long-term obligations	17,032,371	4,225,088
Total Liabilities	21,342,788	8,535,505
<b>NET ASSETS (Deficit)</b>		
Unrestricted net assets		
Board designated for OPEB	2,005,926	2,005,926
Unfunded deficit OPEB	(15,295,372)	(2,488,089)
General reserves	9,986,226	9,986,226
Total unrestricted net assets	(3,303,220)	9,504,063
Temporarily restricted	150,969	150,969
Permanently restricted	314,454	314,454
Total Net Assets (Deficit)	(2,837,797)	9,969,486
Total Liabilities and Net Assets	\$ 18,504,991	\$ 18,504,991

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF FINANCIAL ACTIVITIES**  
**OTHER POSTEMPLOYMENT BENEFITS ADJUSTMENT**

**FOR THE YEAR ENDED JUNE 30, 2017**

	Final Combined Audit Report	Combined Audit Pre-OPEB Adjustment
<b>REVENUES</b>		
Local Control Funding Formula	\$ 25,626,699	\$ 25,626,699
Federal revenues	1,190,729	1,190,729
Other State revenues	4,864,012	4,864,012
Interest	78,560	78,560
Local revenues	<u>2,437,784</u>	<u>2,437,784</u>
Total Revenues	<u>34,197,784</u>	<u>34,197,784</u>
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	22,282,124	21,720,040
Student services	2,581,820	2,581,820
Materials and supplies	463,217	463,217
Student nutrition	193,188	193,188
Student transportation	643,324	643,324
Depreciation	594,295	594,295
Non-capital outlay	<u>878,367</u>	<u>878,367</u>
Subtotal	<u>27,636,335</u>	<u>27,074,251</u>
Management and general:		
Salary and benefits	4,666,390	4,479,029
Insurance	157,958	157,958
Operating expenses	<u>2,456,093</u>	<u>2,456,093</u>
Subtotal	<u>7,280,441</u>	<u>7,093,080</u>
Total Expenses	<u>34,916,776</u>	<u>34,167,331</u>
<b>CHANGE IN NET ASSETS</b>	(718,992)	30,453
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>(2,118,805)</u>	<u>9,939,033</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ (2,837,797)</u>	<u>\$ 9,969,486</u>



**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2017**

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**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 accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. The Charter School has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

**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 (ADA) is a measurement of the number of pupils attending classes of the Charter School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students.

**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, if applicable.

The Charter School must maintain its instructional minutes at the 1986-87 requirements, 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 net assets of all funds reported on the Unaudited Actual Financial Report to the audited consolidated financial statements.

**Supplementary Financial Statements by Entity**

These consolidated financial statements include an account of each entity operated by the Charter School. The Statement of Financial Position / Activities OPEB adjustments show the change due to other postemployment benefits adjustments in the current year.

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Palisades Charter School  
(A California Nonprofit Public Benefit Corporation)  
Pacific Palisades, California

We have audited, in accordance with the 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 School (the Charter School) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 15, 2017.

***Emphasis of Matter***

As discussed in Note 16 to the consolidated financial statements, the Charter School has restated beginning net assets to account for the liability of the Charter School's other post-employment benefits (OPEB) obligation in accordance with the actuarial study. Our opinion is not modified with respect to this matter.

**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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Charter School's 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 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 15, 2017.

### **Report on Summarized Comparative Information**

The prior-year comparative information has been derived from the Charter School's consolidated financial statement report dated December 8, 2016, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### **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 results 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.

*Varrink, Tinn, Day & Co., LLP*

Rancho Cucamonga, California

December 15, 2017



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board  
Palisades Charter School  
(A California Nonprofit Public Benefit Corporation)  
Pacific Palisades, California

**Report on Compliance for Each Major Federal Program**

We have audited Palisades Charter High School's compliance with the types of compliance requirement described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palisades Charter High School's (the Charter School) major Federal programs for the year ended June 30, 2017. Palisades Charter High School's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Palisades Charter High School's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Palisades Charter High School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, Palisades Charter High 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, 2017.

### **Report on Internal Control Over Compliance**

Management of Palisades Charter High 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 Palisades Charter High School's 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palisades Charter High School's internal control over compliance.

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

*Vannink, Tinn, Day & Co., LLP*

Rancho Cucamonga, California

December 15, 2017



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Palisades Charter High School  
(A California Nonprofit Public Benefit Corporation)  
Pacific Palisades, California

### **Report on State Compliance**

We have audited Palisades Charter High School's (A California Nonprofit Public Benefit Corporation) compliance with the types of compliance requirements as identified the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Palisades Charter High School's State government programs as noted below for the year ended June 30, 2017.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Charter School's 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 *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's 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, 2017.

**Other Matters**

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

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Mental Health Expenditures	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.



The Charter School does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

*Vannink, Tein, Day & Co., LLP*

Rancho Cucamonga, California  
December 15, 2017

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY OF AUDITOR'S RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>Basic Local Assistance, Part B, Section 611</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**PALISADES CHARTER HIGH SCHOOL**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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There were no audit findings reported in the prior year.



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

Governing Board  
Palisades Charter High School  
(A California Nonprofit Public Benefit Corporation)  
Pacific Palisades, California

In planning and performing our audit of the financial statements of Palisades Charter High School for the year ended June 30, 2017, 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 items 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 15, 2017 on the financial statements of the Charter School.

***Associated Student Body – Disbursements***

**OBSERVATION**

Internal controls over the disbursement process are not in place. ASB expenditures are not being preapproved prior to any purchase transaction. Purchase request form is not being utilized prior to expenditures. We noted three out of 25 disbursements the invoices are received prior to the ASB preapproval which is evident on the date it was approved in the minutes.

**RECOMMENDATION**

The site should review the cash disbursement procedures outlined in the California Department of Education's manual titled, "Accounting Procedure for Student Organizations." The manual explains all disbursement is for items which spending from ASB funds was preapproved and for which there is documentation showing approval.

***Associated Student Body – Revenue Potentials***

**OBSERVATION**

The ASB is not utilizing revenue potentials for fundraisers.

**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.

#### ***Associated Student Body – Inventory Listing***

#### **OBSERVATION**

Although the student store performs inventory counts every two months, it was noted that inventory was not properly reflected on the financial statements.

#### **RECOMMENDATION**

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

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

*Vannick, Tim, Day & Co., LLP*

Rancho Cucamonga, California  
December 15, 2017