

LARCHMONT SCHOOLS

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

LARCHMONT SCHOOLS

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INDEPENDENT AUDITORS' REPORT

Governing Board
Larchmont Schools
(A California Non-Profit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Larchmont Schools (A California Non-Profit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Larchmont Schools' preparation and fair presentation of the 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 Larchmont Schools' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Larchmont Schools as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Larchmont Schools' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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, 2014, on our consideration of Larchmont Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Larchmont Schools' internal control over financial reporting and compliance.

Varrink, Tin, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2014

LARCHMONT SCHOOLS

STATEMENT OF FINANCIAL POSITION JUNE 30, 2014

ASSETS

Current Assets

Cash	\$	340,468
Accounts receivable		1,703,408
Prepaid expenses and other current assets		196,599
Security deposits		68,750
Total Current Assets		<u>2,309,225</u>

Non-Current Assets

Fixed assets		2,671,932
Less: accumulated depreciation		485,283
Total Non-Current Assets		<u>2,186,649</u>
Total Assets	\$	<u><u>4,495,874</u></u>

LIABILITIES

Current Liabilities

Accounts payable	\$	612,958
Accrued vacation		51,319
Current portion of term note payable		68,162
Line of credit		750,000
Total Current Liabilities		<u>1,482,439</u>

Long-Term Obligations

Long term note payable		1,198,755
Total Liabilities		<u>2,681,194</u>

NET ASSETS

Designated		20,000
Unrestricted		1,794,680
Total Net Assets		<u>1,814,680</u>
Total Liabilities and Net Assets	\$	<u><u>4,495,874</u></u>

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

LARCHMONT SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2014

REVENUES

Local Control Funding Formula	\$ 7,117,608
Federal revenue	360,774
State revenue	1,781,038
Local revenues	2,805,428
Total Revenues	<u>12,064,848</u>

EXPENSES

Program services	
Teacher salaries and benefits	6,855,894
Student transportation	403
Other student services	104,595
Educational programs	814
Occupancy	1,113,571
Student supplies	226,508
Student nutrition	304,129
Special education fee	472,751
Depreciation	153,048
Capital outlay	227,488
Subtotal	<u>9,459,201</u>
Management and general	
Clerical salaries and benefits	1,967,892
District supervisory fee	71,631
Insurance	98,071
Operating expenses	1,309,037
Subtotal	<u>3,446,631</u>
Total Expenses	<u>12,905,832</u>

DECREASE IN NET ASSETS	(840,984)
NET ASSET, BEGINNING OF YEAR	2,655,664
NET ASSETS, END OF YEAR	<u><u>\$ 1,814,680</u></u>

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

LARCHMONT SCHOOLS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (840,984)
Adjustments to reconcile increase in net assets to net cash used by operating activities	
Depreciation expense	153,048
Changes in operating assets and liabilities	
Decrease in accounts receivable	1,004,859
Increase in prepaid expenses	(160,278)
Decrease in accounts payable	510,145
Decrease in deferred revenue	(145,000)
Net Cash Provided by Operating Activities	<u>521,790</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(1,563,531)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Loan repayments	(433,020)
Loan proceeds	<u>1,266,917</u>
Net Cash Provided by Financing Activities	<u>833,897</u>

NET DECREASE IN CASH	(207,844)
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CASH BEGINNING OF YEAR	<u>548,312</u>
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CASH END OF YEAR	<u><u>\$ 340,468</u></u>
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The accompanying notes are an integral part of these financial statements.

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 1 - ORGANIZATION AND MISSION

Larchmont Schools

Larchmont Schools (formerly known as Larchmont Charter School) was formed during 2004 as a non-profit public benefit corporation and the purpose of this corporation is to develop, manage, operate, guide, direct and promote charter schools. Larchmont Charter School officially became Larchmont Schools on September 18, 2012.

The mission of Larchmont Schools is to provide a socio-economically, culturally and racially diverse community of students with an exceptional public education. We foster creativity and academic excellence; our students learn with and from each other in an experience-centered, inquiry-based learning environment. With participation from our entire community, we strive to instill in each student a dedication to improving the world we inhabit.

Larchmont Charter School

Larchmont Charter School petitioned through Los Angeles Unified School District (LAUSD) for a charter and was approved by the State of California Department of Education on September 25, 2005, and renewed on February 16, 2010, for a period of five years ending in 2020.

Charter School number authorized by the State: 0717

Larchmont Charter School, located at 1265 North Fairfax Ave., West Hollywood, California, opened in September 2005, and currently serves approximately 1,200 students in grades kindergarten through twelve during the 2013-2014 school year. Larchmont Charter strives to have the essential combination of a research-based, innovative curriculum, parent involvement in school governance and academic excellence. It emphasizes constructivism in student learning.

Other Related Entities

Joint Powers Agency and Risk Management Pools - Larchmont Schools are associated with the California Charter Schools Association Joint Powers Authority (CCSA-JPA). The CCSA-JPA does not meet the criteria for inclusion as a component unit of Larchmont Schools. Additional information is presented in Note 12 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by Larchmont Schools are described below to enhance the financial statements.

Financial Statement Presentation

Larchmont Schools is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Larchmont Schools had no temporarily or permanently restricted net assets, as of June 30, 2014. In addition, Larchmont Schools is required to present a Statement of Cash Flows.

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. Larchmont Schools uses 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.

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." Larchmont Schools had no temporarily or permanently restricted assets as of June 30, 2013.

Income Taxes

Larchmont Schools 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 financial statements. Income tax returns for 2010 and forward may be audited by regulatory agencies; however, Larchmont Schools is not aware of any such actions at this time.

Larchmont Schools 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 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 believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, Larchmont Schools considers all cash on hand and in banks.

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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, 2014, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. Larchmont Schools has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

It is Larchmont Schools' 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. Furniture and equipment are depreciated using the straight-line method, over 3 to 5 years. Depreciation expense for the year ended June 30, 2014, depreciation expense was \$153,048.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to Larchmont Schools' program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the 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. As of June 30, 2014, Larchmont Schools had \$20,000 designated for educational programs.

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 3 - CASH

Cash at June 30, 2014, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	\$ 340,468	\$ 561,504

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2014, Larchmont Schools had \$204,716 balance in excess of FDIC insured limits. Management believes Larchmont Schools is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014, consisted of the following:

Local Control Funding Formula	\$ 1,143,772
Federal receivable	25,777
State receivable	288,963
Lottery	126,158
Other local	118,738
Total Accounts Receivable	<u>\$ 1,703,408</u>

NOTE 5 PREPAID EXPENSES

Prepaid expenses at June 30, 2014, consisted of the following:

Insurance and rent	<u>\$ 196,599</u>
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LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2014, consisted of the following:

Improvement of sites	\$ 2,310,661
Equipment	361,271
Subtotal	<u>2,671,932</u>
Less: accumulated depreciation	(485,283)
Total Fixed Assets	<u><u>\$ 2,186,649</u></u>

During the year ended June 30, 2014, \$153,048 was charged to depreciation expense.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED VACATION

Accounts payable at June 30, 2014, consisted of the following:

Local Control Funding Formula	\$ 84,192
Vendor payables	95,041
Salaries and benefits	144,576
Due to Los Angeles Unified School District	11,398
Due to grantor	277,751
Total Accounts Payable	<u><u>\$ 612,958</u></u>

As of June 30, 2014, Larchmont Schools accumulated \$51,319 for vacation accruals.

NOTE 8 - LINE OF CREDIT

Larchmont Schools has entered into a line of credit (the LOC) from Pacific Western Bank. As of June 30, 2014, the line of credit balance is \$750,000. The LOC has an aggregate principal limit of \$750,000 and expires July 2014. Larchmont Schools was in compliance with the LOC's covenant through June 30, 2014. During fiscal year 2014, the daily outstanding principal balance has an interest rate of 5.5 percent.

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 9 - LONG-TERM OBLIGATIONS NOTE PAYABLE

On May 1, 2013 Larchmont Schools obtained a term loan with Pacific Western Bank in the amount of \$1,300,000. The note has an interest rate of 5.5 percent with a maturity date through November 2020. As of June 30, 2014, Larchmont Schools had a remaining balance of 1,266,917.

The following payments reflect the full-term loan that will begin 2014 fiscal year:

Fiscal Year Ended June 30,	Principal	Interest	Total Principal and Interest
2015	\$ 68,162	\$ 59,954	\$ 128,116
2016	64,780	63,336	128,116
2017	61,204	66,908	128,112
2018	57,433	70,683	128,116
2019	53,446	74,669	128,115
2020	961,892	110,093	1,071,985
Total	<u>\$ 1,266,917</u>	<u>\$ 445,643</u>	<u>\$ 1,712,560</u>

NOTE 10 - OPERATING LEASE

Larchmont Charter School entered into an agreement on June 1, 2010, with Immanuel Presbyterian Church for its campus location at 688 South Catalina Street, Los Angeles. The term commences on August 1, 2010, and expired July 31, 2013. As of June 30, 2014, there is no remaining balance.

On April 25th of 2005, Larchmont Schools entered into a lease agreement with Archdiocese of Los Angeles Education & Welfare Corporation for the benefit of St. Ambrose Parish located at 1265 N. Fairfax Avenue, Los Angeles. An additional amendment was made on July 30, 2012 commencing September 1, 2012, and extended through August 31, 2015. The lease expense for 2013-2014 was \$213,072.

Fiscal Year Ended June 30,	Payments
2015	<u>\$ 220,812</u>

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Larchmont Charter School entered into an agreement on May 5, 2006, with Eastfield Ming Quong, Inc. for its campus location at 815 North El Centro Avenue, Los Angeles. An amendment was made in August 2011, in which the amount of rent due is \$1.99 per square foot. An additional amendment was made on to commence August 1, 2012, and extended through July 31, 2017. The lease expense for fiscal year 2013-2014 was \$383,061.

The future minimum annual payments for the long-term lease agreement as of June 30, 2014, are as follows:

Fiscal Year Ended June 30,	Payments
2015	\$ 390,475
2016	32,591
Total	<u>\$ 423,066</u>

On November 9, 2012, Larchmont Schools entered into a lease agreement with Jamison Properties, Inc. for its campus location at 2801 West 6th Street, Los Angeles. The term commenced September 1, 2013, with monthly rent increasing by three percent every year through August 31, 2033. The lease expense for 2013-2014 was \$370,500.

The future minimum annual payments for the long-term lease agreement as of June 30, 2014, are as follows:

Fiscal Year Ended June 30,	Payments
2015	\$ 482,040
2016	496,500
2017	511,392
2018	526,740
2019	542,544
2020-2024	2,966,832
2025-2029	3,439,392
2030-2033	3,153,924
Total	<u>\$ 12,119,364</u>

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS).

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CalSTRS

Plan Description

Larchmont Schools contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. Larchmont Schools is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute.. Larchmont Schools' contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013 and 2012, were \$419,296, \$288,632, and \$239,326, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of Larchmont Schools. These payments consist of State General Fund contributions to CalSTRS in the amount of \$87,703 (5.541 percent of salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 11 - CONTINGENCIES

Larchmont Schools 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

Larchmont Schools is not currently a party to any legal proceedings.

LARCHMONT SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 12 - PARTICIPATION IN JOINT POWERS AUTHORITY

Larchmont Schools is a participant in the California Charter Schools Association Joint Powers Authority (CCSA-JPA) for risk management services for workers' compensation insurance and charter school liability insurance. The relationship between Larchmont Schools and the CCSA-JPA is such that the CCSA-JPA is not considered a component unit of Larchmont Schools for financial reporting purposes.

The CCSA-JPA has budgeting and financial reporting requirements independent of member units and the CCSA-JPA's financial statements are not presented in these financial statements; however, transactions between the CCSA-JPA and Larchmont Schools are included in these statements. Audited financial statements for CCSA-JPA were not available for fiscal year 2013-2014 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2014, Larchmont Schools made a payment of \$478,611 to CCSA-JPA for services received. At June 30, 2014, Larchmont Schools had no recorded accounts receivable or accounts payable to the CCSA-JPA.

NOTE 13 - SUBSEQUENT EVENTS

Larchmont Schools' management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through December 15, 2014, which is the date the financial statements were available to be issued. Management has determined that there were subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

LARCHMONT SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

ORGANIZATION

Larchmont Charter School's charter was granted on February 8, 2005, and renewed on February 16, 2010, by the Los Angeles Unified School District.

Larchmont Charter operates one elementary school (K-5), one middle school (6-8) and one high school (grade 9 for the 2012-2013 school year, but 9-12 by the 2015-2016 school year).

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Alicia Lara	Chair	January 15, 2015
Danny Corwin	Vice Chair	March 1, 2015
Gabi Loeb	Treasurer	March 1, 2015
Nicole Jaeger	Secretary	March 1, 2015
Ali Baird	Member	January 14, 2016
Kim Patillo Brownson	Member	February 4, 2016
Alan Dunn	Member	February 4, 2016
Drew Furedi	Member	November 4, 2016
Nick Grouf	Member	February 4, 2016
Beatrice Hsu	Member	January 14, 2016
Lyndsay Sturman	Member	March 11, 2016

ADMINISTRATION

Gene Straub	Executive Director
Catherine Belcher, Ph.D.	Head of School, 9-12
Kristin L. Droege, Ph.D.	Head of School, K-8

See accompanying note to supplementary information.

LARCHMONT SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2014

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	442.47	442.13
Fourth through sixth	370.30	370.57
Seventh and eighth	241.70	241.70
Ninth through twelfth	106.10	105.23
Total Regular ADA	<u>1,160.57</u>	<u>1,159.63</u>
Classroom based ADA		
Transitional kindergarten through third	440.02	439.66
Fourth through sixth	368.86	369.31
Seventh and eighth	240.82	240.98
Ninth through twelfth	105.88	104.85
Total Classroom Based ADA	<u>1,155.58</u>	<u>1,154.80</u>

Larchmont Schools operated a non-classroom based instruction program.

See accompanying note to supplementary information.

LARCHMONT SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87	Reduced	2013-14 Actual Minutes	Number of Days		Status
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	34,971	57,100	175	N/A	Complied
Grades 1 - 3	50,400	48,960				
Grade 1			57,900	175	N/A	Complied
Grade 2			57,900	175	N/A	Complied
Grade 3			57,900	175	N/A	Complied
Grades 4 - 6	54,000	52,457				
Grade 4			59,500	175	N/A	Complied
Grade 5			59,500	175	N/A	Complied
Grade 6			63,200	175	N/A	Complied
Grades 7 - 8	54,000	52,547				
Grade 7			67,425	175	N/A	Complied
Grade 8			67,375	175	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			64,810	175	N/A	Complied
Grade 10			64,810	175	N/A	Complied
Grade 11			64,810	175	N/A	Complied
Grade 12			64,810	175	N/A	Complied

See accompanying note to supplementary information.

LARCHMONT SCHOOLS

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

Balance, June 30, 2014, Unaudited Actuals	\$	2,010,427
Increase in:		
Accounts payables		(42,988)
Fixed Assets		36,551
Decrease in:		
Accounts receivable		(189,310)
Balance, June 30, 2014, Audited Financial Statement	\$	<u>1,814,680</u>

See accompanying note to supplementary information.

LARCHMONT SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

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

This schedule presents information on the amount of instructional time offered by Larchmont Schools and whether Larchmont Schools complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to Larchmont Schools.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by Larchmont Schools and whether Larchmont Schools complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Larchmont Schools must maintain their 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 fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITORS' REPORTS



**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
Larchmont Schools
(A California Non-Profit Public Benefit Corporation)
Los Angeles, 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 financial statements of Larchmont Schools (the Charter School) (A California Non-Profit Public Benefit Corporation) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Larchmont Schools' basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Larchmont Schools' 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Larchmont Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Larchmont Schools' 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 Larchmont Schools' 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*.

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, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Larchmont Schools
(A California Non-Profit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Larchmont Schools' compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Larchmont Schools' State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Larchmont Schools' State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. 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 Larchmont Schools' 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 Larchmont Schools' compliance with those requirements.

Unmodified Opinion

In our opinion, Larchmont Schools 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, 2014.

Other Matters

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Not Applicable
Teacher Certification and Misassignments	3	Not Applicable
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Not Applicable
Instructional Materials:		
General Requirements	8	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Not Applicable
School Accountability Report Card	3	Not Applicable
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	No, see below
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Yes
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for Non Classroom-Based Instruction/Independent Study because ADA was below the threshold required for testing. Additionally, we did not perform testing for California Clean Energy Jobs Act because Larchmont Schools did not have expenditures during the 2013-2014 fiscal year.

Varrinck, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LARCHMONT SCHOOLS

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

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>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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LARCHMONT SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

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

Financial Accounting Control

2014-001 30000

Criteria or Specific Requirements

Industry standards and best business practices related to accounting and internal control require that an entity adopt, implement, and monitor procedures that will allow for timely reporting of financial information to management and those charged with governance.

Condition

We identified the following deficiencies in internal controls over the Charter School's internal control procedures for reimbursement claims:

- Monthly reimbursement claims for the Child Nutrition Program were not prepared for the periods of August 2013 – April 2014.
- There was no evidence of proper review over the reimbursement claim procedures.

Questioned costs

A total of \$202,196 was adjusted for as a result of the lack of internal controls over filing and monitoring monthly Child Nutrition reimbursement claims.

Context

The conditions identified were determined through analysis and testing of internal controls over the Charter School processes.

Effect

A lack of proper review and implementation increases the likelihood of misstatement due to error or fraud and increases the likelihood of accurate financial reporting.

Cause

Changes in Fiscal Services staffing as noted previously have impacted the ability to maintain adequate internal controls.

LARCHMONT SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Recommendation

We recommend the Charter School strengthen its internal controls by implementing adequate review and preparation over reimbursement claims on a monthly basis.

Corrective Action Plan

These are the fundamental reasons that LCS was unable to ultimately receive full reimbursement of Child Nutrition reimbursement claims for the 2013-2014 fiscal year:

- 1) At the beginning of the 2013-2014 school year, staff responsible for the CNIPS application and reimbursement submission were overwhelmed by compliance related to the merger of the former Larchmont Charter West Hollywood charter with the existing Larchmont Charter School charter. This led to inadvertently delaying the filing of the annual application to participate in CNIPS. After some back and forth with the State, the completed application was submitted in March and approved by CDE in May 2014.
- 2) Conversations with CDE management over the course of the year led LCS staff to understand that they could obtain a one-time exemption to file all of the claims for the 2013-2014 school year (beyond the normal 60 day timeline to do so).
- 3) Subsequently, CDE refused to reimburse for claims that pre-dated when the annual application was processed/approved in May, resulting in LCS only being reimbursed for meal claims for June 2014 (and not for any of the preceding months August 2013-May 2014).

As it relates to the corrective actions, the new Executive Director has assigned a senior staff member to prioritize the submission of the annual application and the monthly reimbursement claims. For the 2014-2015 school year, all monthly claims have been submitted correctly and on time and LCS has already received monthly reimbursements.

LARCHMONT SCHOOLS

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

LARCHMONT SCHOOLS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no audit findings reported in the prior year's schedule of financial statement findings.