PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

JUNE 30, 2011

Contents

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Partnership for Los Angeles Schools
Los Angeles, California

We have audited the accompanying statement of financial position of the Partnership for Los Angeles Schools (the Partnership) (A California Non-Profit Public Benefit Organization) as of June 30, 2011, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The unaudited supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 23, 2011

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PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS		
Current Assets		
Cash	$ 899,424	
Accounts receivable	3,566,168	
Prepaid expenses and other current assets	88,484	
Total Current Assets		$ 4,554,076
Non-Current Assets		
Fixed assets	95,948	
Less: accumulated depreciation	39,121	
Total Non-Current Assets		56,827
Total Assets		$ 4,610,903
LIABILITIES		
Current Liabilities		
Accounts payable	947,928	
Compensated absences	121,073	
Total Current Liabilities		$ 1,069,001
Long-Term Debt		
Noncurrent portion of note payable		3,500,000
Total Liabilities		4,569,001
NET ASSETS		
Unrestricted	41,902	
Total Net Assets		41,902
Total Liabilities and Net Assets		$ 4,610,903

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

PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

REVENUES	
Grants	$ 6,636,645
In-kind donation	1,583,452
Interest income	2,049
Total Revenue	8,222,146
EXPENSES	
School sites	
School site staff	513,395
Student intervention	456,718
Professional development	423,831
Technology and data system investments	397,752
Targeted school site funding	331,018
School staffing support	78,359
Transition team planning	70,403
Small schools	64,990
In-kind donation cost	997,760
Subtotal	3,334,226
Family and community engagement	306,801
Subtotal	306,801
Partnership support team	
Salaries and wages	2,744,126
Consultants	348,718
Health, other benefits, and payroll taxes	574,828
Subtotal	3,667,672
Management and general	
Other operating	706,635
In-kind donation cost	585,692
Depreciation	15,407
Fundraising	12,651
Subtotal	1,320,385
Total Expenses	8,629,084
DECREASE IN UNRESTRICTED NET ASSETS	(406,938)
Net Assets - Beginning	523,777
Prior period adjustment	(74,937)
Net Assets - Beginning (As Restated)	448,840
Net Assets - Ending	$ 41,902

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

PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in unrestricted net assets	$ (406,938)
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation expense	15,407
Changes in operating assets and liabilities	
Increase in accounts receivable	(1,713,572)
Increase in prepaid expenses	(44,530)
Decrease in accounts payable	(122,043)
Increase in compensated absences	38,546
Net Cash Used by Operating Activities	(2,233,130)
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenses	(11,627)
Net Cash Used by Investing Activities	(11,627)
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan proceeds	1,750,000
Net Cash Provided by Financing Activities	1,750,000
NET DECREASE IN CASH	(494,757)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,394,181
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 899,424

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

NOTE 1 - ORGANIZATION INFORMATION

The Partnership for Los Angeles Schools (the Partnership) is a California Non-Profit Public Benefit Organization launched by Los Angeles Mayor Antonio Villaraigosa to catalyze the transformation of the Los Angeles Unified School District (LAUSD). The Partnership is the largest alternative public school operator in Los Angeles. Beginning July 1, 2008, the Partnership began serving and supporting ten LAUSD schools, a combination of elementary, middle, and high schools, under an MOU approved by the Board of Education in May 2008. As of June 30, 2011, the Partnership served and supported twenty one schools and added an additional school in the 2011-12 fiscal year. Combined, these twenty two schools serve approximately 16,500 students.

The Partnership is the first project of its kind in Los Angeles and in the State of California. Its goal is to: 1) dramatically accelerate student achievement in a large number of the lowest performing schools in LAUSD; and 2) drive high impact change that accelerates achievement at all LAUSD schools. The Partnership seeks to become a model for collaboration, school reform and community advancement that can be replicated throughout Los Angeles and California. In order to accomplish these goals, the Partnership works in close collaboration with school stakeholders and LAUSD.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Partnership are described below to enhance the use of the financial statements for the reader.

Financial Statement Presentation

The Partnership 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. The Partnership had no temporarily or permanently restricted net assets. In addition, the Partnership is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to 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. The Partnership 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." The Partnership had no temporarily or permanently restricted assets as of June 30, 2011.

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 at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Partnership 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. 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 tax has been reflected in these financial statements.

Donated Services, Materials, and Facilities

The Partnership receives donated services and goods from a variety of unpaid volunteers and other donors. Only those services, which satisfy the criteria for recognition for volunteer effort, are reflected in the Statement of Activities.

The Partnership has donated facilities that met the criteria for recognition under SFAS No. 116.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash is considered to be cash on hand and demand deposits. Cash equivalents consist of highly liquid investments in a daily sweep account.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Partnership has chosen to report the expenses when incurred.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. At June 30, 2011, management had determined all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

It is the Partnership's policy to capitalize individual property and equipment purchases over $1,000. 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 five years. During the fiscal year ending June 30, 2011, depreciation expense was $15,407. As of June 30, 2011, the Partnership had not received donations required to be capitalized.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned.

NOTE 3 - CASH

Cash at June 30, 2011, consisted of the following:

	Reported Amount	Bank Balance
Deposits		
Cash on hand and in banks	$ 899,424	$ 953,373

Cash balances held in banks are insured up to $750,000 by the Federal Depository Insurance Corporation (FDIC) for interest bearing accounts. The Partnership maintains its cash in a bank deposit account that is subject to federally insured limits. The Partnership has not experienced any losses in such accounts. At June 30, 2011, the Partnership had a balance of $203,373 of deposits in excess of FDIC insured limits. Management believes the Partnership is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2011, consisted of the following:

Lundquist Grant	$ 3,500,000
Tri-C Grant	62,373
Other receivables	3,795
Total Accounts Receivable	$ 3,566,168

NOTE 5 - PREPAID EXPENSES

At June 30, 2011, prepaid expenses consisted of the following:

Salaries	$	11,711
Insurance		36,267
Lease deposit		15,842
Prepaid rent		14,272
Other prepaid expenses		10,392
Total Prepaid Expenses	$	88,484

NOTE 6 - PROPERTY AND EQUIPMENT

At June 30, 2011, property and equipment consisted of the following:

Computer equipment	$	78,204
Leasehold improvements		17,744
		95,948
Less: accumulated depreciation		(39,121)
Total Fixed Assets	$	56,827

For the year ended June 30, 2011, depreciation expense amounted to $15,407.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

Accounts payable	$	454,924
Salaries payable		11,000
Due to:		
Los Angeles Unified School District		482,004
Total Accounts Payable	$	947,928

NOTE 8 - COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation. Employees are allowed to accumulate vacation indefinitely and, upon separation, are paid out any unused vacation at a rate of the employees' accrued salary pay rate. Effective April 30, 2012, the Partnership will have a 27 day cap on the number of vacation days that can accrue. Once a full-time employee accrues a vacation day balance of 27 days, no further vacation days will accrue until the balance falls below the 27 day cap. As of June 30, 2011, the compensated absences balance was $121,073.

NOTE 9 - NOTE PAYABLE

On January 28, 2010, the Partnership entered into a loan agreement in the amount of $1,500,000 with Continental Development Corporation. The loan may be repaid at any time with no penalty. The loan is a non-interest bearing loan with a revised maturity date of January 31, 2013. The loan will be paid with funds received from existing accounts receivable, which contains a grant receivable in the amount of $1,500,000 from Continental Development Corporation (Lundquist Grant). As of June 30, 2011, the balance was $1,500,000.

On July 20, 2010, the Partnership entered into an additional loan agreement in the amount of $2,000,000 with Continental Development Corporation. The loan is non-interest bearing loan with a revised maturity date of January 31, 2013. The loans will be paid with funds received from existing accounts receivable, which contains a grant receivable in the amount of $2,000,000 from Continental Development Corporation (Lundquist Grant). As of June 30, 2011, the balance was $2,000,000.

Projected repayment year	
2012	$ -
2013	3,500,000
Total	$ 3,500,000

NOTE 10 - OPERATING LEASE

On March 5, 2009, the Partnership entered into a facilities lease agreement with Jamison 1541 Wilshire, LLC for a "Rentable Area of Premises" consisting of approximately 10,331 square feet in an office building. The agreement is for a term of 60 months commencing on August 1, 2009.

Payment year	
2012	$ 160,647
2013	166,846
2014	173,044
Total	$ 500,537

NOTE 11 - RETIREMENT PLANS

Plan Description

The employees of the Partnership that work 20 hours or more per week may participate in a voluntary 403(b) plan. Under the terms of this plan, all employees over the age of 18 are eligible to receive employer matching contributions. The Partnership matches Elective Deferrals on a 100 percent basis up to six percent of the participant's total compensation received during the plan year. There is no waiting period with respect to employee and employer contribution. Employer's contribution is 25 percent vested after two full years of service, 50 percent after three years of service, and 100 percent after four years of service. A participant's salary reduction contributions during any plan year may not exceed the maximum allowed by the Internal Revenue Code. Total employer contributions for the year ended June 30, 2011, amounted to $81,736.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

Net assets at the beginning of the current fiscal year have been adjusted for compensated absences in the amount of $74,937 not recognized in the prior year. The correction has no effect on the results of the current year’s activities; however, had the adjustment not been required, the change in net assets for the fiscal year would have been a decrease of $406,938. The cumulative effect of the adjustment resulted in a decrease in net assets of $481,875.

NOTE 13 - MANAGEMENT AND GENERAL - OTHER OPERATING EXPENSES

At June 30, 2011, other operating expenses consisted of the following:

	Management and General Other Operating Expenses
Building rent	$ 147,063
Advertisement and recruitment	137,132
Communications	61,526
Telephone expenses	48,879
Legal and audit fees	45,552
Parking	38,547
Office supplies	37,033
Mileage	33,661
Other fees	28,793
Travel and conferences	28,538
Internet expenses	23,301
Equipment lease	23,027
General insurance	18,012
Food	8,631
Postage expenses	8,016
Other supplies	6,263
Training and development	5,844
Non-capitalized equipment	2,971
Software and financial systems	2,000
Books and other reference materials	968
Dues and membership	600
Operation and housekeeping services	278
Total	$ 706,635

NOTE 14 - PARTNERSHIP SUPPORT TEAM

At June 30, 2011, the Partnership's support team expenses consisted of the following:

	Partnership Support Team
Salaries and wages	$ 2,744,126
Consultants	348,718
Health and other benefits:	
Health and welfare	139,482
403b plan	81,736
Other benefits - relocation	9,315
Other benefits - LAUSD detached service staff	160,336
Payroll taxes for non-detached service staff:	
OASDI	113,457
Medicare	28,721
State unemployment	16,768
Workers compensation	25,002
Employment training tax	11
	$ 3,667,672

NOTE 15 - SUBSEQUENT EVENTS

The Partnership's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 23, 2011, which is the date the 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 financial statements.

SUPPLEMENTARY INFORMATION - UNAUDITED

PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

COMPARATIVE STATEMENTS OF FINANCIAL POSITION - UNAUDITED
FISCAL YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
ASSETS			
Current Assets			
Cash	$ 899,424	$ 1,394,181	$ 2,271,750
Accounts receivable	3,566,168	1,852,596	113,578
Prepaid expenses and other current assets	88,484	43,954	280,108
Total Current Assets	4,554,076	3,290,731	2,665,436
Non-Current Assets			
Fixed assets	95,948	84,321	74,004
Less: accumulated depreciation	39,121	23,714	9,681
Total Non-Current Assets	56,827	60,607	64,323
Total Assets	$ 4,610,903	$ 3,351,338	$ 2,729,759
LIABILITIES			
Current Liabilities			
Accounts payable	$ 947,928	$ 1,069,971	$ 498,156
Compensated absences	121,073	7,590	7,590
Current portion of note payable	-	1,750,000	-
Total Current Liabilities	1,069,001	2,827,561	505,746
Long-Term Debt			
Noncurrent portion of note payable	3,500,000	-	-
Total Liabilities	4,569,001	2,827,561	505,746
NET ASSETS			
Unrestricted	41,902	523,777	2,224,013
Total Net Assets	41,902	523,777	2,224,013
Total Liabilities and Net Assets	$ 4,610,903	$ 3,351,338	$ 2,729,759

PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - UNAUDITED
FISCAL YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
REVENUES			
Grants	$ 6,637,176	$ 6,585,225	$ 6,525,487
In-kind donation	1,583,452	1,317,104	249,320
Interest income	1,518	2,576	19,790
Other	-	11,529	26,823
Total Revenue	8,222,146	7,916,434	6,821,420
EXPENSES			
School sites			
School site staff	513,395	586,417	200,747
Student intervention	456,718	410,378	418,281
Professional development	423,831	458,705	544,705
Technology and data system investments	397,752	287,202	29,519
Targeted school site funding	331,018	779,132	298,486
School staffing support	78,359	32,319	106,264
Transition team planning	70,403	7,984	53,101
Small schools	64,990	-	-
Transportation for field trips	-	3,355	-
Building school culture	-	365,460	665,253
Data and surveys	-	83,527	58,991
Scholarly uniforms	-	11,899	428,496
Facilities improvements	-	9,672	72,796
In-kind donation cost	997,760	494,606	117,485
Subtotal	3,334,226	3,530,656	2,994,124
Family and community engagement	306,801	317,066	147,524
Subtotal	306,801	317,066	147,524
Re-granting activities			
Teach for America	-	1,000,000	1,000,000
Boston Consulting Group	-	-	660,828
Network Partners	-	-	200,000
Fiscal sponsor	-	9,645	28,466
Subtotal	-	1,009,645	1,889,294

PARTNERSHIP FOR LOS ANGELES SCHOOLS
(A California Non-Profit Public Benefit Organization)

COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - UNAUDITED (Continued)
FISCAL YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
EXPENSES			
Partnership support team			
Salaries and wages	$ 2,744,126	$ 2,458,415	$ 2,078,812
Consultants	348,718	304,762	459,709
Health, other benefits, and payroll taxes	574,828	515,526	389,888
Subtotal	3,667,672	3,278,703	2,928,409
Management and general			
Other operating	706,635	622,469	401,137
In-kind donation cost	585,692	822,498	131,835
Depreciation	15,407	14,033	8,967
Fundraising	12,651	21,600	5,487
Subtotal	1,320,385	1,480,600	547,426
Total Expenses	8,629,084	9,616,670	8,506,777
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(406,938)	(1,700,236)	(1,685,357)
Net Assets - Beginning	523,777	2,224,013	3,909,370
Prior period adjustment	(74,937)	-	-
Net Assets - Beginning (As Restated)	448,840	2,224,013	3,909,370
Net Assets - Ending	$ 41,902	$ 523,777	$ 2,224,013