

Audited Financial Statements
Partnership for Los Angeles Schools
Eight Months Ended June 30, 2008
with Report of Independent Auditors

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
AUDITED FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5

Report of Independent Auditors

Board of Directors Partnership for Los Angeles Schools

We have audited the accompanying statement of financial position of the Partnership for Los Angeles Schools ("Partnership") as of June 30, 2008, and the related statement of activities and cash flows for the eight months 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 misstatements. 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 for Los Angeles Schools as of June 30, 2008, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vasquez + Company LLP

Los Angeles, California
October 15, 2008

Partnership for Los Angeles Schools
Statement of Financial Position
June 30, 2008

ASSETS

Assets

Cash		\$ 675,171
Cash held by fiscal agent		1,352,487
Grant receivable		2,510,000
Office equipment, cost	\$ 31,297	
Accumulated depreciation	<u>714</u>	30,583
Other receivables		<u>4,620</u>
	Total assets	\$ <u>4,572,861</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ <u>663,491</u>
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Net assets

Unrestricted:

Undesignated	3,641,471
Board designated - school site planning	<u>267,899</u>
	Total net assets
	\$ <u>3,909,370</u>

Total liabilities and net assets	\$ <u>4,572,861</u>
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See notes to financial statements.

**Partnership for Los Angeles Schools
Statement of Activities
For the Eight Months Ended June 30, 2008**

Revenues and other support	
Grants	\$ 6,039,633
In-kind donation	99,089
Interest income	27,244
Total revenues and other support	<u>6,165,966</u>
Operating expenses	
School site planning	
Transition team	264,292
Operational planning with LAUSD	224,000
School staffing support	178,125
Targeted school site funding	74,151
School facilitators	52,225
Data and surveys	42,224
In-kind donation cost	37,595
Professional development	25,385
	<u>897,997</u>
Connecting communities	
Community outreach	<u>342,876</u>
Partnership support team	
Salaries and wages	416,617
Consultants	243,253
Health and other benefits	88,291
Payroll taxes	33,346
	<u>781,507</u>
Partnership support office	
In-kind donation cost	61,494
Recruitment and advertisement	41,571
Fundraising	40,959
Professional fees	26,105
Non-capitalized equipment	14,958
Travel and conferences	13,154
Insurance	11,733
Communications	9,187
Bank and other fees	8,095
Other operating	6,246
Depreciation	714
	<u>234,216</u>
Total operating expenses	<u>2,256,596</u>
Change in net assets	3,909,370
Net assets, beginning	-
Net assets, ending	<u>\$ 3,909,370</u>

See notes to financial statements.

Partnership for Los Angeles Schools
Statement of Cash Flows
For the Eight Months Ended June 30, 2008

Cash flows from operating activities	
Change in net assets	\$ 3,909,370
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	714
Changes in operating assets and liabilities:	
Cash held by fiscal agent	(1,352,487)
Grant receivable	(2,510,000)
Other receivables	(4,620)
Accounts payable and accrued expenses	663,491
Net cash provided by operating activities	<u>706,468</u>
Cash flows from investing activities	
Acquisition of office equipment	<u>31,297</u>
	Net change in cash 675,171
Cash, beginning of year	-
Cash, end of year	<u>\$ 675,171</u>

See notes to financial statements.

NOTE 1 ORGANIZATION PROFILE

The Partnership for Los Angeles Schools (Partnership) is a nonprofit 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. Combined, these ten schools serve approximately 18,000 students and employ approximately 1,500 individuals.

The Partnership is the first project of its kind in Los Angeles and in the State of California. Its goal is to both dramatically improve student achievement within Partnership Schools and to become a model for collaboration, school reform and community advancement that can be replicated throughout Los Angeles and California. In order to accomplish this goal, the Partnership is engaging in the following core activities in close collaboration with school stakeholders and LAUSD: 1) operating among the lowest performing public schools in LAUSD to demonstrate that student achievement can be rapidly accelerated when effective practices are implemented comprehensively; 2) convening other public school operators and LAUSD to collaborate in targeted areas of practice; and 3) collaborating with LAUSD to help the district develop the capabilities in areas such as performance management and per-pupil budgeting.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Partnership have been prepared on the accrual basis of accounting.

Basis of Presentation

The accompanying financial statements have been prepared on the basis of the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Partnership is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Partnership currently has no temporarily or permanently restricted net assets.

Cash Held by Fiscal Agent

The Partnership entered into two separate fiscal agent relationships with LA's BEST and the California Community Foundation (CCF). As fiscal agents, LA's BEST and CCF were designated to receive funds donated to the Partnership until the Partnership received its 501(c)(3) status. Fund disbursements are guided by the Partnership's primary objective. The Partnership received its 501(c)(3) status on March 20, 2008. For LA's BEST, disbursements were made directly by the Organization. For CCF, wire transfers or checks are deposited to the main disbursing account of the Partnership from the fund with CCF when cash requirements are needed by the Partnership's operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of the date of incorporation (November 1, 2007), the cash balance in LA's BEST was \$503,608 and the cash balance in CCF was \$0. The \$503,608 was recorded as grant revenue. As of June 30, 2008, the cash balance in LA's BEST was \$0 and the cash balance held by CCF was \$1,352,487.

Office Equipment

Office equipment is recorded at cost. Provision for depreciation is computed using the straight-line method over the useful estimated life of five years.

Revenue Recognition

Revenue from grants is recognized on an accrual basis as earned according to the provisions of the grant.

Unrestricted Net Assets

Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the Partnership, and may be used at the discretion of the governing board for any purpose. As of June 30, 2008, the Board designated \$267,899 to be used for school site planning in the 2008-2009 fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Partnership is a nonprofit corporation exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). Accordingly, no provision has been made for income taxes.

NOTE 3 GRANT RECEIVABLE

The grant is receivable from a major donor owed to the Partnership in the form of an unrestricted grant.

NOTE 4 OFFICE EQUIPMENT

Office equipment consists of computers purchased for the Partnership's operations. As of June 30, 2008, office equipment amounted to \$31,297 and total accumulated depreciation amounted to \$714.

NOTE 5 PENSION PLAN

Full time employees are eligible to participate in the Partnership's 403(b) retirement plan program. The employee contribution is a percentage amount determined by the employee up to legally mandated limits and treated as an applicable government pre-tax contribution. This deposit is matched by a contribution by the Partnership of up to 6% of an employee's salary. As of June 30, 2008 the employee contributions amounted to \$10,816 while the Partnership match amounted to \$7,800.

NOTE 6 GRANT REVENUE

During the period, the Partnership received the grants from private sources. A large portion of the grants received was donated by a major donor amounting to \$5,010,000, of which \$2,500,000 was received as of June 30, 2008. The Partnership received a residual grant from LA's BEST in the amount of \$503,608 which was recorded as grant revenue (Note 2).

NOTE 7 IN-KIND DONATIONS

During the year, the Partnership received in-kind donations from various donors in the form of office space use, utilities, phones and equipment estimated at \$61,494 and school materials estimated at \$37,595. Cost of the in-kind donation was also recorded in the amount equal to the donation.

NOTE 8 CONCENTRATION OF RISK

The Partnership maintains its cash in deposit accounts in a major bank, which at times may exceed federally insured limits. The Partnership's deposit accounts with the bank exceeded the Federal Deposit Insurance Corporation insured limit by \$719,855 at June 30, 2008.

The Partnership entered into a fiscal sponsorship agreement with California Community Foundation (CCF) wherein the fiscal sponsor will manage a large sum of the Partnership's fund. The balance of cash held by CCF as of June 30, 2008 was \$1,352,487. (See Note 2)

During the year, the Partnership did not generate any revenue from its program services that were provided to the Partnership schools. All of the Partnership's revenues are generated from the private sector in the form of grants.

