

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

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010

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

JUNE 30, 2010

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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, 2010, and the related statements of activities 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, 2010, 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 1, 2010

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

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2010

ASSETS

Current Assets

Cash	\$ 1,394,181	
Accounts receivable	1,852,596	
Prepaid expenses and other current assets	43,954	
Total Current Assets		\$ 3,290,731

Non-Current Assets

Fixed assets	84,321	
Less: accumulated depreciation	23,714	
Total Non-Current Assets		60,607
Total Assets		<u>\$ 3,351,338</u>

LIABILITIES

Current Liabilities

Accounts payable	\$ 1,069,971	
Compensated absences	7,590	
Note payable	1,750,000	
Total Current Liabilities		\$ 2,827,561

NET ASSETS

Unrestricted	523,777	
Total Net Assets		523,777
Total Liabilities and Net Assets		<u>\$ 3,351,338</u>

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
FOR THE YEAR ENDED JUNE 30, 2010

REVENUES

Grants	\$ 6,585,225
In-kind donation	1,317,104
Interest income	2,576
Other	11,529
Total Revenue	<u>7,916,434</u>

EXPENSES

School sites	
Building school culture	365,460
Professional development	458,705
Scholarly uniforms	11,899
Student intervention	410,378
Targeted school site funding	779,132
School site staff	586,417
In-kind donation cost	494,606
School staffing support	32,319
Facilities improvements	9,672
Data and surveys	83,527
Transition team planning	7,984
Technology and data system investments	287,202
Transportation for field trips	3,355
Subtotal	<u>3,530,656</u>
Connecting communities	
Community outreach	<u>317,066</u>
Re-granting activities	
Teach for America	1,000,000
Fiscal sponsor	9,645
Subtotal	<u>1,009,645</u>
Partnership support team	
Salaries and wages	2,458,415
Consultants	304,762
Health and other benefits	341,870
Payroll taxes	173,656
Subtotal	<u>3,278,703</u>
Management and general	
Other operating	622,469
In-kind donation cost	822,498
Depreciation	14,033
Fundraising	21,600
Subtotal	<u>1,480,600</u>
Total Expenses	<u>9,616,670</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>(1,700,236)</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,224,013</u>
NET ASSETS, END OF YEAR	<u><u>\$ 523,777</u></u>

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in unrestricted net assets	\$ (1,700,236)
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation expense	14,033
Changes in operating assets and liabilities	
Decrease in accounts receivable	(1,739,018)
Increase in prepaid expenses	236,154
Decrease in accounts payable	571,815
Net Cash Used by Operating Activities	<u>(2,617,252)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenses	<u>(10,317)</u>
Net Cash Used by Investing Activities	<u>(10,317)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan proceeds	<u>1,750,000</u>
Net Cash Provided by Financing Activities	<u>1,750,000</u>

NET DECREASE IN CASH

(877,569)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

2,271,750

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 1,394,181

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010, the Partnership served and supported twelve schools. Combined, these twelve schools served approximately 16,000 students and employ approximately 1,400 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 its capabilities in areas such as performance management and per-pupil budgeting.

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010.

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 from a variety of unpaid volunteers. 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. At June 30, 2010, 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. As of June 30, 2010, depreciation expense was \$14,033. As of June 30, 2010, the Partnership had not received donations required to be capitalized.

Changes in Accounting Principles

Subsequent Events

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance which requires the effects of events that occur subsequent to the balance sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities are to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about condition that arose after the balance sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for annual financial periods ended after December 15, 2009, with prospective application. The Partnership adopted the guidance for the year ended June 30, 2010, by including the required disclosures in Note 12 to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 - CASH

Cash at June 30, 2010, consisted of the following:

	Reported Amount	Bank Balance
Deposits		
Cash on hand and in banks	\$ 1,394,181	\$ 1,508,880

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) for interest bearing accounts. The Partnership maintains its cash in a bank deposit account that is not subject to federally insured limits. The Partnership has not experienced any losses in such accounts. At June 30, 2010, the Partnership had \$1,258,880 of deposits in excess of FDIC insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2010, consisted of the following:

Lundquist Grant	\$ 1,750,000
Tri-C Grant	77,746
Advances	17,666
Other receivables	7,184
Total Accounts Receivable	<u>\$ 1,852,596</u>

NOTE 5 - PREPAID EXPENSES

At June 30, 2010, prepaid expenses consisted of the following:

Salaries	\$ 15,810
Insurance	10,710
Lease deposit	14,463
Other prepaid expenses	2,971
Total Prepaid Expenses	<u>\$ 43,954</u>

PARTNERSHIP FOR LOS ANGELES SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - PROPERTY AND EQUIPMENT

At June 30, 2010, property and equipment consisted of the following:

Computer equipment	\$ 66,577
Leasehold improvements	17,744
	<u>84,321</u>
Less: accumulated depreciation	(23,714)
Total Fixed Assets	<u>\$ 60,607</u>

For the year ended June 30, 2010, depreciation expense amounted to \$14,033.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

Accounts Payable	\$ 680,166
Salaries and benefits	22,000
Due to:	
Los Angeles Unified School District	328,542
San Diego Unified School District	39,263
Total Accounts Payable	<u>\$ 1,069,971</u>

NOTE 8 - NOTE PAYABLE

On January 28, 2010, the Partnership entered into a loan agreement in the amount of \$1,750,000 with Continental Development Corporation. The loan may be repaid at any time with no penalty. The loan is a non-interest bearing loan which will mature on December 31, 2010. The loan will be paid with funds received from existing accounts receivable, which contains a grant receivable in the amount of \$1,750,000 from Continental Development Corporation (Lundquist Grant) to be received prior to the due date of the loan. As of June 30, 2010, the balance was \$1,750,000.

Repayment	
year	
<u>2011</u>	<u>\$ 1,750,000</u>

PARTNERSHIP FOR LOS ANGELES SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 - 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.

Repayment year	
2011	\$ 142,051
2012	160,647
2013	166,846
2014	173,044
2015	14,463
Total	<u>\$ 657,051</u>

NOTE 10 - 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, 2010, amounted to \$85,013.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 11 - MANAGEMENT AND GENERAL - OTHER OPERATING EXPENSES

At June 30, 2010, other operating expenses consisted of the following:

	Management and General
	Other Operating Expenses
Legal and audit fees	\$ 101,065
Building rent	92,439
Marketing	67,757
Parking	51,238
Office supplies	49,604
Telephone expenses	43,092
General insurance	36,389
Internet expenses	28,439
Other fees	24,470
Software and financial systems	20,416
Equipment lease	19,281
Mileage	19,032
Travel and conferences	18,942
Training and development	13,231
Postage expenses	11,726
Non-capitalized equipment	11,246
Printing and copying	6,485
Advertisement and recruitment	6,321
Vendor repairs	685
Dues and membership	611
Total	<u>\$ 622,469</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12 - PARTNERSHIP SUPPORT TEAM

At June 30, 2010, the Partnership's support team expenses consisted of the following:

	<u>Partnership Support Team</u>
Salaries and wages	\$ 2,458,415
Consultants	304,762
Health and other benefits:	
Health and welfare	119,326
403b plan	85,013
Other benefits - relocation	20,496
Other benefits - LAUSD and SDUSD detached service staff	117,035
Payroll taxes:	
OASDI	113,722
Medicare	28,000
State unemployment	16,823
Workers compensation	15,050
Employment training tax	61
	<u><u>\$ 3,278,703</u></u>

NOTE 13 - 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 December 1, 2010, 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 STATEMENT OF FINANCIAL POSITION - UNAUDITED
FISCAL YEARS ENDED JUNE 30, 2010, 2009, AND 2008

	2010	2009	2008
ASSETS			
Current Assets			
Cash	\$ 1,394,181	\$ 2,271,750	\$ 2,027,658
Accounts receivable	1,852,596	113,578	2,510,000
Prepaid expenses and other current assets	43,954	280,108	4,620
Total Current Assets	<u>3,290,731</u>	<u>2,665,436</u>	<u>4,542,278</u>
Non-Current Assets			
Fixed assets	84,321	74,004	31,297
Less: accumulated depreciation	23,714	9,681	714
Total Non-Current Assets	<u>60,607</u>	<u>64,323</u>	<u>30,583</u>
Total Assets	<u>\$ 3,351,338</u>	<u>\$ 2,729,759</u>	<u>\$ 4,572,861</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,069,971	\$ 498,156	\$ 663,491
Compensated absences	7,590	7,590	-
Note payable	1,750,000	-	-
Total Current Liabilities	<u>2,827,561</u>	<u>505,746</u>	<u>663,491</u>
NET ASSETS			
Unrestricted	523,777	2,224,013	3,641,471
Board designated - school site planning	-	-	267,899
Total Net Assets	<u>523,777</u>	<u>2,224,013</u>	<u>3,909,370</u>
Total Liabilities and Net Assets	<u>\$ 3,351,338</u>	<u>\$ 2,729,759</u>	<u>\$ 4,572,861</u>

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

COMPARATIVE STATEMENT OF ACTIVITIES - UNAUDITED
FISCAL YEARS ENDED JUNE 30, 2010, 2009, AND 2008

	2010	2009	2008
REVENUES			
Grants	\$ 6,585,225	\$ 6,525,487	\$ 6,039,633
In-kind donation	1,317,104	249,320	99,089
Interest income	2,576	19,790	27,244
Other	11,529	26,823	-
Total Revenue	<u>7,916,434</u>	<u>6,821,420</u>	<u>6,165,966</u>
EXPENSES			
School sites			
Targeted school site funding	779,132	298,486	74,151
School site staff	586,417	200,747	52,225
In-kind donation cost	494,606	117,485	37,595
Professional development	458,705	544,705	25,385
Student intervention	410,378	418,281	-
Building school culture	365,460	665,253	-
Technology and data system investments	287,202	29,519	-
Data and surveys	83,527	58,991	42,224
School staffing support	32,319	106,264	178,125
Scholarly uniforms	11,899	428,496	-
Facilities improvements	9,672	72,796	-
Transition team planning	7,984	53,101	264,292
Transportation for field trips	3,355	-	-
Operational planning with LAUSD	-	-	224,000
Subtotal	<u>3,530,656</u>	<u>2,994,124</u>	<u>897,997</u>
Connecting communities			
Community outreach	<u>317,066</u>	<u>147,524</u>	<u>342,876</u>
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	<u>1,009,645</u>	<u>1,889,294</u>	<u>-</u>
Partnership support team			
Salaries and wages	2,458,415	2,078,812	416,617
Consultants	304,762	459,709	243,253
Health and other benefits	341,870	234,422	88,291
Payroll taxes	173,656	155,466	33,346
Subtotal	<u>3,278,703</u>	<u>2,928,409</u>	<u>781,507</u>

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

COMPARATIVE STATEMENT OF ACTIVITIES - UNAUDITED (Continued)
FISCAL YEARS ENDED JUNE 30, 2010, 2009, AND 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
EXPENSES			
Management and general			
Other operating	\$ 622,469	\$ 401,137	\$ 131,049
In-kind donation cost	822,498	131,835	61,494
Depreciation	14,033	8,967	714
Fundraising	21,600	5,487	40,959
Subtotal	<u>1,480,600</u>	<u>547,426</u>	<u>234,216</u>
Total Expenses	<u>9,616,670</u>	<u>8,506,777</u>	<u>2,256,596</u>
INCREASE (DECREASE) IN UNRESTRICTED			
NET ASSETS	(1,700,236)	(1,685,357)	3,909,370
NET ASSETS, BEGINNING OF YEAR	<u>2,224,013</u>	<u>3,909,370</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u><u>\$ 523,777</u></u>	<u><u>\$ 2,224,013</u></u>	<u><u>\$ 3,909,370</u></u>