

FENTON CHARTER PUBLIC SCHOOLS

CONSOLIDATED

AUDIT REPORT

JUNE 30, 2014

FENTON CHARTER PUBLIC SCHOOLS
Consolidated Financial Statements and Supplemental Information
Year Ended June 30, 2014

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Independent Auditor's Report

To the Board of Directors
Fenton Charter Public Schools
Los Angeles, California

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Fenton Charter Public Schools (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated 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 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 the entity's 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fenton Charter Public 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.

El Cajon, California
January 21, 2015

FINANCIAL STATEMENTS

FENTON CHARTER PUBLIC SCHOOLS
Consolidated Statement of Financial Position
June 30, 2014

ASSETS

Current Assets

Cash and cash equivalents	\$ 7,783,155
Accounts receivable	2,926,164
Related party receivable	1,247,870
Prepaid expenditures	413,485
Other current assets	161,426
Total Current Assets	<u>12,532,100</u>

Noncurrent Assets

Capital assets, net	<u>12,900,105</u>
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TOTAL ASSETS	<u><u>\$ 25,432,205</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 1,468,853
Unearned revenue	31,818
Accrued payroll	778,114
Accrued vacation and sick leave	6,825
Cash overdraft	88,229
Loan payable, current portion	24,550
Total Current Liabilities	<u>2,398,389</u>

Long Term Liabilities

Loan payable, less current portion	1,377,094
Other post employment benefits	1,362,575
Total Long Term Liabilities	<u>2,739,669</u>

Total Liabilities	<u>5,138,058</u>
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Net Assets

Unrestricted	19,244,305
Temporarily restricted	1,049,842
Total Net Assets	<u>20,294,147</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 25,432,205</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

FENTON CHARTER PUBLIC SCHOOLS
Consolidated Statement of Activities
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Revenue			
LCFF Sources			
State aid, current year	\$ 11,229,367	\$ -	\$ 11,229,367
State aid, prior year	(276,866)	-	(276,866)
Education protection account funds	2,626,747	-	2,626,747
Payments in lieu of property taxes	3,633,983	-	3,633,983
Total LCFF Sources	<u>17,213,231</u>	<u>-</u>	<u>17,213,231</u>
Federal revenue	-	4,024,122	4,024,122
Other state revenue	2,818,156	830,708	3,648,864
Interest	28,590	-	28,590
Other local revenue	<u>1,778,178</u>	<u>-</u>	<u>1,778,178</u>
Total Revenues	<u>21,838,155</u>	<u>4,854,830</u>	<u>26,692,985</u>
Net assets released from restrictions:			
Grant restrictions satisfied	<u>3,804,988</u>	<u>(3,804,988)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>25,643,143</u>	<u>1,049,842</u>	<u>26,692,985</u>
EXPENSES			
Certificated salaries	9,706,871	-	9,706,871
Classified salaries	3,440,572	-	3,440,572
Taxes and employee benefits	3,658,685	-	3,658,685
Books and supplies	2,300,467	-	2,300,467
Rentals, leases and repairs	1,196,469	-	1,196,469
Other operating expenditures	3,778,087	-	3,778,087
OPEB	513,500	-	513,500
Debt service interest	93,162	-	93,162
Depreciation expense	<u>546,516</u>	<u>-</u>	<u>546,516</u>
TOTAL EXPENSES	<u>25,234,329</u>	<u>-</u>	<u>25,234,329</u>
CHANGE IN NET ASSETS	408,814	1,049,842	1,458,656
NET ASSETS, BEGINNING OF YEAR AS ADJUSTED IN (NOTE N)	<u>18,835,491</u>	<u>-</u>	<u>18,835,491</u>
NET ASSETS, END OF YEAR	<u>\$ 19,244,305</u>	<u>\$ 1,049,842</u>	<u>\$ 20,294,147</u>

The accompanying notes to the financial statements are an integral part of this statement.

FENTON CHARTER PUBLIC SCHOOLS

Consolidated Statement of Cash Flows

Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 1,458,656
Depreciation	546,516
OPEB	513,500
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) Decrease resulting from changes in assets:	
Accounts receivable	1,151,343
Related party receivable	(926)
Other current assets	(4,043)
Prepaid expenses	10,402
Increase (Decrease) resulting from changes in liabilities:	
Accounts payable	438,461
Unearned revenue	31,818
Accrued payroll	33,516
Compensated absences	(198,093)
Cash overdraft	88,229
Security deposits	(10,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>4,059,379</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of fixed assets	<u>(797,964)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(797,964)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments of loan payable	<u>(21,739)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(21,739)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 3,239,676

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 4,543,479

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 7,783,155

The accompanying notes to the financial statements are an integral part of this statement.

A. Organization and Summary of Significant Accounting Policies

Organization

Fenton Charter Public Schools (FCPS) are not for profit organizations organized in the State of California. The Schools are exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. The Schools were formed as charter schools pursuant to California Education Code Section 47600 under a charter agreement with the Los Angeles Unified School District.

Fenton Charter Public Schools provide education to students in grades kindergarten through fifth grade. The School's mission is to successfully educate all students through the implementation of a rigorous standards-based curriculum that is infused with technology-enriched instructional strategies and learning opportunities.

On November 15, 2006, the governing board of Fenton Avenue Charter School (FACS) submitted the Fenton Primary Center (FPC) charter petition to the Los Angeles Unified School District with the goal of establishing a start-up charter school that would accommodate one half of the students of FACS and thereby allow the School to move off the year round, multi-track calendar. Fenton Primary Center opened on July 1, 2008 and moved to a newly constructed site on September 7, 2013. The schools now follow a single-track calendar with 184 instructional days.

In July 2011, the governing board of Fenton Avenue Charter School, the Council of Councils, and the Board of Directors of the Fenton Primary Center agreed to form a Charter Management Organization (CMO) to legally bind the two schools, create greater fiscal stability, and establish the possibility for growth. The organization that was formed, the Fenton Charter Public Schools, is a non-profit public benefit corporation [501(c)(3)] recognized as tax exempt by the Internal Revenue Service as well as the State of California Franchise Tax Board.

Santa Monica Boulevard Community Charter School was divested to the Fenton Charter Public Schools on May 1, 2012 and on August 21, 2012, the office of Secretary of State of the State of California recognized the merger of the three schools (Fenton Avenue Charter School, Fenton Primary Center and Santa Monica Boulevard Community Charter School) under the Fenton Charter Public Schools ("Surviving Corporation").

The effects of the August 21, 2012 "Agreement of Merger" include the following: each school continues to operate as a charter school under the CMO, the Fenton Charter Public Schools, as per Education Code Section 47604(a), a succeeded all rights and property to the organization. The organization also accepted all debts, liabilities, and obligations of the schools.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Fenton Charter Public Schools (FCPS) and its related entities Fenton Avenue Charter School, Fenton Primary Center, and Santa Monica Blvd. Community Charter School. All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ from those estimates.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, Financial Statements of Not-for-Profit Organizations. Under ASC No. 958, the School is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor or grant restrictions.
- Temporarily restricted net assets consist of contributed funds or grants subject to donor or grant imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the School may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Fenton Charter Public Schools had no permanently restricted net assets during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, Fenton Charter Public Schools considers all highly liquid debt equity instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Fenton Charter Public School's method of accounting for investments, in accordance with generally accepted accounting principles, is the fair value method. Fair value is determined by published quotes. Changes in fair value of investments results in increases or decreases in unrealized fair values of equity investments. Adjustments to fair values are reflected as unrealized gain/loss on investments in the accompanying statement of activities.

Accounts Receivable

Accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary as management believes that all amounts are collectible.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

Capital Assets

Property and equipment are recorded at cost, or estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of assets sold or retired and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the School's earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred. Fenton Charter Public School's policy is to evaluate the remaining lives and recoverability in light of the current conditions. It is reasonably possible that the School's estimate to recover the carrying amount of the property and equipment will change. Estimated useful lives range from three to fifty years depending on the asset.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition or when resources are received by Fenton Charter Public School's prior to Fenton Charter Public School's meeting the requirements for legal claim to the resources.

In subsequent periods, when both revenue recognition criteria are met or when Fenton Charter Public School's has legal claim to the resources, the liability for unearned revenue is removed from the statement of financial position and revenue is recognized.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions.

All donor or grant restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. Fenton Charter Public School's receives services donated by volunteers in carrying out Fenton Charter Public School's operations. The services do not meet the criteria as contributions and are, therefore, not recognized in the financial statements.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contribution of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Fenton Charter Public School's reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Local Control Funding Formula (LCFF)

Fenton Charter Public School's primary funding source is a combination of local property taxes and state revenues. The California Department of Education computes the local control funding formula (LCFF) on statewide charter school rates multiplied by the School's average daily attendance (ADA) as reported at the Second Principal apportionment period (P2). The result is then reduced by property tax revenues transferred from the District to the School, which is funding in lieu of property taxes and education protection account funds paid by the state under proposition 30. The remaining balance is paid from the state General Fund, in the form of LCFF State Aid. LCFF funding sources, inclusive of state and local sources, made up 64% of the schools revenue. The Schools are not at risk of losing these funding sources, as long as the school maintains a steady level of ADA, as these funding sources are mandated by the California State Constitution to fund schools.

Advertising

Advertising costs are expensed when incurred.

Income Taxes

Fenton Charter Public Schools is a 509(a)(1) publicly supported non-profit organization that is exempt from income taxes under Sections 501(a) and 501(c)(3) of the Internal Revenue Code. Fenton Charter Public Schools is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. Fenton Charter Public Schools may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2014, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

Fenton Charter Public Schools follows provisions of uncertain tax positions as addressed in ASC 958. Fenton Charter Public Schools recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended June 30, 2014.

Fenton Charter Public Schools files informational and income tax returns in the United States and in the state of California. The federal income tax and informational returns are subject to examination by the Internal Revenue Service for three years after the returns are filed. State and local jurisdictions have statutes of limitation that generally range from three to five years.

FENTON CHARTER PUBLIC SCHOOLS
Notes to the Consolidated Financial Statements (Continued)
Year Ended June 30, 2014

Subsequent Events

In preparing these financial statements, Fenton Charter Public Schools has evaluated events and transactions for potential recognition or disclosure through January 16, 2015, the date the financial statements were available to be issued.

B. Cash and Cash Equivalents

Cash in County Treasury

Fenton Charter Public Schools maintains a portion of its cash in the Los Angeles County Treasury as part of the common investment pool (\$4,647,498 as of June 30, 2014). The county is restricted by Government Code §53635 pursuant to §53601 to invest in time deposits, U.S. Government Securities, state registered warrants, notes or bonds, State Treasurer's investment pool, banker's acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse agreements.

The fair value of the Fenton Charter Public School's investments in the pool is reported based upon Fenton Charter Public Schools pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The balance available for withdrawal is equal to the balance recorded in these financial statements.

Fenton Charter Public Schools investment in the county pool is as follows:

	<u>Average Days to Maturity</u>	<u>Amount Reported</u>	<u>Fair Value</u>
Los Angeles County Treasury Investment Pool	741 Days	\$4,647,498	\$4,627,108

Cash in Bank

The remainder of the School's cash (\$3,135,657 as of June 30, 2014) is held in financial institutions which are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC.

At June 30, 2014 Fenton Charter Public Schools had four bank accounts in financial institutions whose aggregated bank balance exceeded the FDIC insurance coverage by \$2,173,621. The Schools reduces their exposure to risk by maintaining such deposits with high quality financial institutions. Fenton Charter Public Schools has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash and cash equivalents.

C. Analysis of Specific Deposit and Investment Risk

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. Cash invested as part of the County Treasury Investment Pool is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of the credit risk. The Los Angeles County Investment Pool is rated AA+ by Standard & Poors.

Custodial Credit Risk – Deposits

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in Fenton Charter Public Schools name. As of June 30, 2014 all deposits made with financial institutions were fully insured by the FDIC and as such Fenton Charter Public Schools was not exposed to this risk.

Concentrations of Credit Risk

This risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The investment policy of Fenton Charter Public Schools contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such Fenton Charter Public Schools was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Fenton Charter Public Schools manages its exposure to interest rate risk by investing in the county pool.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. As of June 30, 2014 the school has not invested in any foreign investments and as such is not exposed to foreign currency risk.

FENTON CHARTER PUBLIC SCHOOLS
Notes to the Consolidated Financial Statements (Continued)
Year Ended June 30, 2014

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaning Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 Years	None	None
Registered State Bonds, Notes, Warrants	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Securities	5 Years	None	None
Banker's Acceptance	180 Days	40%	30%
Commercial Paper	270 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20% of Base	None
Medium-Term Corporate Notes	5 Years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 Years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

D. Accounts Receivable

As of June 30, 2014 accounts receivable consisted of:

Federal Government:

Child Nutrition	\$ 418,613
Special Education	668
Title III	6,573

State Government:

LCFF State Aid	1,920,883
Lottery Revenue	221,536
ASES	17,988
Special Education	178,866
Proposition 30-Clean Energy	121,530
Other State Gants	140,063

Local Sources:

Other Local Sources	(50,064)
Interest	4,362
In Lieu of Property Taxes	<u>(54,854)</u>

Total Accounts Receivable	<u>\$ 2,926,164</u>
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E. Capital Assets

As of June 30, 2014 capital assets consisted of:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 829,612	\$ -	\$ -	\$ 829,612
Furniture	394,779	445,324	-	840,103
Building	11,410,529	114,278	-	11,524,807
Leasehold improvements	3,310,663	218,445	(50,713)	3,478,395
Equipment	<u>1,607,196</u>	<u>70,630</u>	<u>-</u>	<u>1,677,826</u>
Total capital assets	17,552,779	848,677	(50,713)	18,350,743
Less accumulated depreciation	<u>(4,904,125)</u>	<u>(546,513)</u>	<u>-</u>	<u>(5,450,638)</u>
Capital assets, net	<u>\$ 12,648,654</u>	<u>\$ 302,164</u>	<u>\$ (50,713)</u>	<u>\$ 12,900,105</u>

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

F. Related Party Accounts

The Fenton Charter Public Schools (FCPS) have the same Board of Directors. During the year, Fenton Charter Public Schools have related transactions that are recorded in their respective related party accounts. At year end, the related party accounts are reconciled to ensure all transactions between the schools are properly recorded, and all the intercompany related party accounts have been eliminated.

G. Accounts Payable

As of June 30, 2014 accounts payable consisted of:

Vendors payable	\$ 438,370
LAUSD	33,371
CDE	202,500
Accrued payroll liabilities	<u>794,612</u>
Total Accounts Payable	<u>\$ 1,468,853</u>

H. Temporarily Restricted Ending Net Assets

As of June 30, 2014 unearned revenue consisted of:

Temporarily restricted ending net assets consisted of restricted grants which have not yet been fully expended. Once the funds have been expended for an allowable purpose, they will be reclassified to unrestricted net assets. As of June 30, 2014 temporarily restricted ending net assets consisted of:

Federal Government:

Child Nutrition	\$ 319,803
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State Government:

California Clean Energy Grant	305,893
Common Core Implementation Grant	<u>424,146</u>

Total Temporarily Restricted Net Assets	<u>\$ 1,049,842</u>
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FENTON CHARTER PUBLIC SCHOOLS
Notes to the Consolidated Financial Statements (Continued)
Year Ended June 30, 2014

I. Functional Expenses

As of June 30, 2014 functional expenses consisted of:

	Program Services	Management and General	Total
Salaries and wages	\$ 9,999,041	\$ 3,148,402	\$ 13,147,443
Pension plan accruals and contributions	783,589	253,887	1,037,476
Other employee benefits	1,753,220	469,830	2,223,050
Payroll taxes	314,537	83,622	398,159
Fees for services (non-employees):			-
Legal	-	66,975	66,975
Accounting	-	200,000	200,000
Special education contractors	305,045	-	305,045
Miscellaneous	25,253	27,958	53,211
Other contracted services	535,319	-	535,319
Advertising	16,340	4,085	20,425
Conferences, conventions and meetings	88,051	17,986	106,037
Utilities	228,288	57,071	285,359
Depreciation	546,516	-	546,516
Insurance	-	127,448	127,448
Books and supplies	2,607,410	504,311	3,111,721
Dues and memberships	4,396	11,750	16,146
Operations and housekeeping	242,132	60,533	302,665
Oversight fees	205,270	-	205,270
Equipment leases and repairs	324,257	-	324,257
LAUSD fair share	351,256	-	351,256
OPEB	513,500	-	513,500
Building rents	560,700	140,175	700,875
Substitute contracts	55,496	-	55,496
Professional development	32,470	-	32,470
Los Angeles County Office of Education	103,532	-	103,532
Technology services	58,325	14,174	72,499
Debt service	93,162	-	93,162
Fundraising	9,022	-	9,022
Transfers to new foundation	-	88,041	88,041
All other expenses	181,732	20,222	201,954
Total expenses	<u>\$ 19,937,859</u>	<u>\$ 5,296,470</u>	<u>\$ 25,234,329</u>

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

J. Commitments and Contingencies*State and Federal Allowances, Awards, and Grants*

Fenton Charter Public Schools has received federal and state 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 required reimbursement will not be material. As a result, no liability has been accrued.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of Fenton Charter Public Schools. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of Fenton Charter Public Schools. The Fenton Charter Public Schools policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the credible service period for calculation of retirement benefits when the employee retires.

K. Operating Lease

Fenton Charter Public Schools entered into a lease agreements for equipment. The agreements do not contain a purchase option and does not meet the requirements for capitalization. As such, the leases have not been recorded on the statement of financial position.

The agreement contains a termination clause providing for cancellation after a specified number of days written notice to the lessor, but it is unlikely that Fenton Charter Public Schools will cancel the agreement prior to the expiration date.

Future minimum payments under the agreement are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Lease</u> <u>Payments</u>
2015	\$ 91,817
2016	91,817
2017	<u>56,687</u>
Total	<u>240,321</u>

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

L. Employee Retirement System

Qualified employees are covered under multiple-employer defined benefit pension plans by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS). The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of the other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the School chooses to stop participating in some of its multi-employer plans, the School may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Fenton Charter Public School's participation in these plans for the fiscal year ended June 30, 2014, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2014 and 2013 is for the plan's year-end at June 30, 2014 and June 30, 2013, respectively.

The zone status is based on information that the School received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. There have been no significant changes that affect the comparability of the 2014, 2013 and 2012 contributions.

Pension Fund	EIN/ Pension Plan	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of School			Number of Employees Participating	Surcharge Imposed
	Year Ended June 30	Year Ended June 30	Year Ended June 30		Year Ended June 30	Year Ended June 30			
							2014		
CalSTRS	NPA	Yellow	Yellow	No	\$ 783,589	\$ 758,693	\$ 874,361	128	No
CalPERS	NPA	Yellow	Yellow	No	\$ 253,887	\$ 207,579	\$ 192,789	38	No

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

CalSTRS:

The School contributes to the State Teachers' Retirement System (CalSTRS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. Required contribution rates are set by the California Legislature and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level of percentage of payroll using the entry age normal actuarial cost method. CalSTRS also uses the level percentage of payroll method to calculate the amortization of any unfunded liability. Copies of the STRS annual report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

For the fiscal year ended June 30, 2014 active plan members were required to contribute 8% of their salary and the employer contribution rate was 8.25% of annual payroll. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Fenton Charter Public Schools made contributions as noted above. For the year ended June 30, 2014 the State contributed \$505,146 on behalf of the School.

CalPERS:

The School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Benefit provisions are established by state statutes, as legislatively amended, with the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Active plan members are required to contribute 7% of their salary, and the School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2013-14 were 11.442% of salaries. The School made contributions as noted above.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

M. Postemployment Benefits Other than Pension Benefits:

The Fenton Avenue Charter School, Fenton Primary Center, and Santa Monica Boulevard Community Charter School (“Fenton Schools”) provide post-employment benefits other than pensions (“OPEB”) to employees who meet certain criteria. As a result of offering such benefits, the Fenton Schools are required to report the value of such benefits and the associated costs according to the accounting requirements of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (“GASB 45”).

The Fenton Schools provide medical, dental, and vision benefits to eligible retirees and their covered eligible dependents and pays a portion of the cost for eligible retirees, spouses, and dependents. All active employees who retire directly from the Fenton Schools and meet the eligibility criteria may participate.

The following represents the eligibility requirements:

Tier One Employees

Eligibility:

- Retire from active service
- Hired as a full-time benefited employee of the Los Angeles Unified School District on or before May 31, 1992 and resigned from the Los Angeles Unified School District to work at the Charter School by June 30, 2007.
- Hired as a full-time benefited employee of the Los Angeles Unified School District after June 1, 1992 and resigned from the Los Angeles Unified School District to work at the Charter School by June 30, 2007. An employee must also have years of qualifying service and age greater than 80 by June 30, 2007.
- Upon reaching age 65, retirees and spouses must enroll in Medicare Parts A and B.

Dependent Eligibility:

- Spouse Only

Survivor Eligibility:

- None

Benefits:

- Retirees meeting Tier One eligibility conditions are offered a lifetime subsidy by the District for medical, dental and vision coverage for the retiree and spouse.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

Tier Two Employees

Eligibility

- Retire from active service
- Must have at least 15 years of service in a California Public School
- Hired prior to July 1, 2007
- Not eligible for Tier One
- Upon reaching age 65, retirees and spouses must enroll in Medicare Parts A and B

Dependent Eligibility

- Spouse Only

Survivor Eligibility

- None

Benefits:

- Retirees meeting Tier Two eligibility conditions are offered a 15% lifetime subsidy by the District up to a \$15,000 annual cap for medical, dental and vision coverage for the retiree and spouse.
- Retirees with more than 20 years of service at a California Public School receive a subsidy based on their years of service at retirement. A percentage subsidy is determined by multiplying the total years of service by 2 and adding the amounts of years of service at the Charter School. For example, an employee with 25 total years of service at retirement, with 10 years at the Charter School, would receive a 60% lifetime subsidy by the District up to \$15,000 annual cap for medical, dental and vision coverage for the retiree and spouse.
- If the Subsidy percentage amounts totals over 100, benefits will be covered at 100% with no annual cap on these benefits.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

Tier Three Employees

Eligibility:

- Retire from active service
- Must have at least 20 years of service in a California Public School.
- Hired on or after July 1, 2007
- Not eligible for Tier One or Tier Two

Dependent Eligibility:

- Spouse only for pre-2012 hires, none thereafter.

Survivor Eligibility:

- None

Benefits:

- Retirees meeting Tier Three eligibility conditions are offered 20% subsidy by the District up to a \$15,000 annual cap for medical, dental and vision coverage for the retiree and spouse.
- Retirees with more than 30 years of service at a California Public School receive a subsidy based on their years of service at retirement. A percentage subsidy is determined by multiplying the total years of service by 2 and adding the amount of years of service at the Charter School. For example, an employee with 35 total years of service at retirement, with 10 years at the Charter School, would receive an 80% subsidy by the District up to a \$15,000 annual cap for medical, dental and vision coverage for the retiree and spouse.
- If the subsidy percentage amount totals over 100, benefits will be covered at 100% with no annual cap on these benefits.
- Benefits cease at age 65

Annual OPEB Cost and Net OPEB Obligation: The Schools' annual other postemployment benefits (OPEB) cost (expense) is based on the annual required contribution of the employer (ARC). The Schools expense is comprised of the present value of benefits accruing in the current year (normal cost) plus a 30 year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

The following table shows the components of all School's in the Fenton Public Charter School's annual OPEB cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan, and changes in the School's net OPEB obligation to the plan.

Annual Required contribution (ARC)	\$	621,559
Interest on Net OPEB obligation		42,954
Adjustment to ARC		(53,902)
Annual OPEB cost		610,611
Employer contributions		(96,609)
Increase in Net OPEB obligation		513,502
Net OPEB obligations, beginning of year		849,075
Net OPEB obligations, end of year	\$	1,362,577

The School's portion of the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 is as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 610,611	15.8%	\$ 1,362,577

The projection of future benefits payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Medical trend rates: The expected rate of increase in healthcare insurance premiums ranged from a rate of 7% initially, reduced to a rate of 5% after 6 years was used.

Actuarial Cost Method: The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the year. All employees eligible as of the measurement date in accordance with the provisions of the plan listed in the data provided by the District were included in the valuation.

Actuarial value of assets: Any assets of the plan will be valued on a market value basis.

FENTON CHARTER PUBLIC SCHOOLS

Notes to the Consolidated Financial Statements (Continued)

Year Ended June 30, 2014

N. Adjustments to Beginning Net Assets

As a result of the “Agreement of Merger” on August 21, 2012 between the Fenton Charter Public Schools and the three schools, Fenton Avenue Charter School, Fenton Primary Center, and Santa Monica Boulevard Community Charter School the Other Postemployment Benefits (OPEB) (See Note M) have been allocated between the three schools based on that School’s percentage of covered employees. As a result of this allocation the following adjustment to the School’s beginning net assets is required:

Fenton Avenue Charter School:

Net Assets, Beginning (As Originally Stated)	\$ 6,915,605
Effect of OPEB allocation	<u>509,442</u>
Net Assets, Beginning (As Adjusted)	<u><u>\$ 7,425,047</u></u>

Fenton Primary Center:

Net Assets, Beginning (As Originally Stated)	\$ 1,647,186
Effect of OPEB allocation	<u>(169,815)</u>
Net Assets, Beginning (As Adjusted)	<u><u>\$ 1,477,371</u></u>

Santa Monica Boulevard Community Charter School:

Net Assets, Beginning (As Originally Stated)	\$ 10,267,151
Effect of OPEB allocation	<u>(339,627)</u>
Net Assets, Beginning (As Adjusted)	<u><u>\$ 9,927,524</u></u>

Fenton Charter Public Schools CMO:

Net Assets, Beginning (As Originally Stated)	\$ 5,549
Effect of OPEB allocation	<u>-</u>
Net Assets, Beginning (As Adjusted)	<u><u>\$ 5,549</u></u>
Total	<u><u>\$ 18,835,491</u></u>

SUPPLEMENTAL INFORMATION

FENTON CHARTER PUBLIC SCHOOLS

Organization Structure

Year Ended June 30, 2014

Fenton Charter Public Schools were formed as charter schools pursuant to Education Code Section 47600 under an agreement with the Los Angeles Unified School District granted in June 1993.

GOVERNING BOARD

Name	Office	Term and Term Expiration
Joe Lucent	Chairman	Two Year Term Expires June 30, 2015
Yvette King-Berg	Vice Chairman	Two Year Term Expires June 30, 2015
Gary Borden	Community Representative	Two Year Term Expires June 30, 2016
Cile Borman	Community Representative	Two Year Term Expires June 30, 2015
Tommy Chang	Community Representative	Two Year Term Expires June 30, 2015
Jaqueline Elliot	Community Representative	Two Year Term Expires June 30, 2016
Gabriela Hernandez	Parent Representative	Two Year Term Expires June 30, 2016
Donald Parker	Community Representative	Two Year Term Expires June 30, 2016
Walter Wallace	Community Representative	Two Year Term Expires June 30, 2016
Katherine Alvarez	Parent Representative	Two Year Term Expires June 30, 2015
Lily T. Hernandez	Parent Representative	Two Year Term Expires June 30, 2015

ADMINISTRATION

Irene Sumida
Executive Director

Stacy Hutter
Director

Leticia Padilla Parra
Assistant Director

FENTON CHARTER PUBLIC SCHOOLS
Combining Consolidated Financial Position
Year Ended June 30, 2014

	Fenton Avenue Charter School	Fenton Primary Center	Santa Monica Blvd. Community Charter School	FASEL	FSTEM	FCPS CMO	Total
ASSETS							
Current Assets							
Cash and cash equivalents	\$ 1,401,070	\$ 1,937,676	\$ 3,751,821	\$ 345,000	\$ 341,750	\$ 5,838	\$ 7,783,155
Accounts receivable	879,481	921,562	1,125,121	-	-	-	2,926,164
Prepaid expenditures	236,032	156,486	20,967	-	-	-	413,485
Related party receivable	1,840,252	-	-	-	-	1,247,620	3,087,872
Other current assets	-	-	161,426	-	-	-	161,426
Total Current Assets	<u>4,356,835</u>	<u>3,015,724</u>	<u>5,059,335</u>	<u>345,000</u>	<u>341,750</u>	<u>1,253,458</u>	<u>14,372,102</u>
Fixed Assets							
Property and equipment, net	<u>4,175,324</u>	<u>579,570</u>	<u>8,145,211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,900,105</u>
TOTAL ASSETS	<u>\$ 8,532,159</u>	<u>\$ 3,595,294</u>	<u>\$ 13,204,546</u>	<u>\$ 345,000</u>	<u>\$ 341,750</u>	<u>\$ 1,253,458</u>	<u>\$ 27,272,207</u>
LIABILITIES AND NET ASSETS							
Current Liabilities							
Accounts payable	\$ 76,829	\$ 207,299	\$ 979,760	102,000	\$ 102,000	\$ 39	\$ 1,467,927
Accrued payroll	431,793	346,321	-	-	-	-	778,114
Compensated absences	1,972	2,851	2,002	-	-	-	6,825
Due to related entity	-	356,546	236,512	-	-	1,247,870	1,840,928
Cash overdraft	-	88,229	-	-	-	-	88,229
Unearned revenue	-	-	31,818	-	-	-	31,818
Current portion, loan payable	-	-	24,550	-	-	-	24,550
Total Current Liabilities	<u>510,594</u>	<u>1,001,246</u>	<u>1,274,642</u>	<u>102,000</u>	<u>102,000</u>	<u>1,247,909</u>	<u>4,238,391</u>
Long Term Liabilities							
Other post employment benefits	545,033	272,515	545,027	-	-	-	1,362,575
Loan payable, less current portion	-	-	1,377,094	-	-	-	1,377,094
Total Long Term Liabilities	<u>545,033</u>	<u>272,515</u>	<u>1,922,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,739,669</u>
Total Liabilities	<u>1,055,627</u>	<u>1,273,761</u>	<u>3,196,763</u>	<u>102,000</u>	<u>102,000</u>	<u>1,247,909</u>	<u>6,978,060</u>
Net Assets							
Unrestricted	\$ 6,988,546	\$ 2,042,460	\$ 9,725,000	243,000	\$ 239,750	\$ 5,549	\$ 19,244,305
Temporarily restricted	487,986	279,073	282,783	-	-	-	1,049,842
Total Net Assets	<u>7,476,532</u>	<u>2,321,533</u>	<u>10,007,783</u>	<u>243,000</u>	<u>239,750</u>	<u>5,549</u>	<u>20,294,147</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,532,159</u>	<u>\$ 3,595,294</u>	<u>\$ 13,204,546</u>	<u>345,000</u>	<u>\$ 341,750</u>	<u>\$ 1,253,458</u>	<u>\$ 27,272,207</u>

FENTON CHARTER PUBLIC SCHOOLS
Combining Consolidated Statement of Activities
Year Ended June 30, 2014

	Fenton Avenue Charter School	Fenton Primary Center	Santa Monica Blvd. Community Charter School	FASEL	FSTEM	FCPS CMO	Total
REVENUE AND SUPPORT							
Revenue							
LCFF Sources							
State aid, current year	\$ 3,358,240	\$ 3,616,715	\$ 4,254,412	\$ -	\$ -	\$ -	\$ 11,229,367
State aid, prior year	-	(276,866)	-	-	-	-	(276,866)
Education protection account funds	783,006	850,119	993,622	-	-	-	2,626,747
Payments in lieu of property taxes	1,078,038	1,182,317	1,373,628	-	-	-	3,633,983
Total LCFF Sources	5,219,284	5,372,285	6,621,662	-	-	-	17,213,231
Federal revenue	1,325,934	1,321,221	1,376,967	-	-	-	4,024,122
Other state revenue	832,579	1,430,212	1,386,073	-	-	-	3,648,864
Interest	4,549	4,837	7,627	-	-	11,577	28,590
Other local revenue	80,310	870,558	312,114	250,000	250,000	15,196	1,778,178
Total Revenues	7,462,656	8,999,113	9,704,443	250,000	250,000	26,773	26,692,985
Net assets released from restrictions:							
Grant restrictions satisfied							
TOTAL REVENUE AND SUPPORT							
EXPENSES							
Certificated salaries	2,850,761	2,895,503	3,960,607	-	-	-	9,706,871
Classified salaries	1,298,510	983,694	1,158,368	-	-	-	3,440,572
Taxes and employee benefits	1,233,341	1,036,453	1,388,891	-	-	-	3,658,685
Books and supplies	543,428	1,356,668	392,999	-	-	7,372	2,300,467
Rentals, leases and repairs	137,563	917,816	128,595	-	-	12,495	1,196,469
Other operating expenditures	959,780	816,556	1,977,595	7,000	10,250	6,906	3,778,087
OPEB	205,400	102,700	205,400	-	-	-	513,500
Debt service interest	-	-	93,162	-	-	-	93,162
Depreciation expense	182,388	45,561	318,567	-	-	-	546,516
Total Expenses	7,411,171	8,154,951	9,624,184	7,000	10,250	26,773	25,234,329
CHANGE IN NET ASSETS	51,485	844,162	80,259	243,000	239,750	-	1,458,656
NET ASSETS, BEGINNING OF YEAR AS ADJUSTED (NOTE N)							
	7,425,047	1,477,371	9,927,524	-	-	5,549	18,835,491
NET ASSETS, END OF YEAR	\$ 7,476,532	\$ 2,321,533	\$ 10,007,783	\$ 243,000	\$ 239,750	\$ 5,549	\$ 20,294,147