

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**Consolidating Audited Financial Statements
For the Year Ended
June 30, 2016**

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**TABLE OF CONTENTS
June 30, 2016**

Independent Auditor’s Report.....	1
Consolidating Statement of Financial Position.....	3
Consolidating Statement of Activities	4
Consolidating Statement of Cash Flows	5
Consolidating Statement of Functional Expenses.....	6
Notes to the Consolidating Financial Statements	7
Local Education Agency Organization Structure	16
Schedule of Instructional Time.....	18
Schedule of Average Daily Attendance.....	19
Reconciliation of Annual Financial Report with Audited Financial Statements.....	20
Reconciliation of Annual Financial Report with Audited Financial Statements.....	20
Notes to the Supplementary Information.....	21
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Independent Auditor’s Report on State Compliance	24
Schedule of Findings and Questioned Costs.....	26
Status of Prior Year Findings and Questioned Costs.....	27



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Port of Los Angeles High School and its Affiliates
San Pedro, CA

Report on the Financial Statements

We have audited the accompanying consolidating financial statements of Port of Los Angeles High School and its Affiliates (the Organization), a California nonprofit public benefit corporation, which comprise the consolidating statement of financial position as of June 30, 2016, and the related consolidating statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Organization's 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 Organization'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 financial statements.

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

Board of Directors
Port of Los Angeles High School

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the consolidating financial position of the Organization as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Organization's financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 1, 2016

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2016**

	Port of LA High School	POLAHS, LLC	POLAHS Inc.	Total
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,137,730	\$ 100,854	\$ 95,455	\$ 2,334,039
Restricted cash and cash equivalents	1,137,166	102,927	-	1,240,093
Accounts receivable - federal and state	1,150,207	-	-	1,150,207
Accounts receivable - other	23,500	-	10,000	33,500
Prepaid expenses and other assets	64,041	-	-	64,041
Total current assets	<u>4,512,644</u>	<u>203,781</u>	<u>105,455</u>	<u>4,821,880</u>
LONG-TERM ASSETS:				
Restricted cash and cash equivalents	-	-	1,292,706	1,292,706
Property, plant and equipment, net	795,681	8,378,351	-	9,174,032
Total long-term assets	<u>795,681</u>	<u>8,378,351</u>	<u>1,292,706</u>	<u>10,466,738</u>
Total assets	<u>\$ 5,308,325</u>	<u>\$ 8,582,132</u>	<u>\$ 1,398,161</u>	<u>\$ 15,288,618</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	\$ 316,150	\$ -	\$ -	\$ 316,150
Deferred revenue	17,058	-	-	17,058
Total current liabilities	<u>333,208</u>	<u>-</u>	<u>-</u>	<u>333,208</u>
LONG-TERM LIABILITIES:				
Notes payable	-	9,800,000	-	9,800,000
Total long-term liabilities	<u>-</u>	<u>9,800,000</u>	<u>-</u>	<u>9,800,000</u>
NET ASSETS:				
Unrestricted				
Undesignated	3,817,823	(1,320,795)	105,455	2,602,483
Designated for operating reserve	1,137,166	-	-	1,137,166
Designated for capital reserve	-	102,927	-	102,927
Designated for sinking fund	-	-	1,292,706	1,292,706
Total unrestricted	<u>4,954,989</u>	<u>(1,217,868)</u>	<u>1,398,161</u>	<u>5,135,282</u>
Temporarily restricted	20,128	-	-	20,128
Total net assets	<u>4,975,117</u>	<u>(1,217,868)</u>	<u>1,398,161</u>	<u>5,155,410</u>
Total liabilities and net assets	<u>\$ 5,308,325</u>	<u>\$ 8,582,132</u>	<u>\$ 1,398,161</u>	<u>\$ 15,288,618</u>

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

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

	Port of LA High School	POLAHS, LLC	POLAHS Inc.	Eliminations	Total
UNRESTRICTED NET ASSETS					
REVENUES:					
State revenue:					
State aid	\$ 6,499,579	\$ -	\$ -	\$ -	\$ 6,499,579
Other state revenue	2,020,738	-	-	-	2,020,738
Federal revenue:					
Grants and entitlements	366,255	-	-	-	366,255
Local revenue:					
In-lieu property tax revenue	1,838,132	-	-	-	1,838,132
Contributions	362,181	-	325,899	(275,899)	412,181
Interest income	3,983	534	2,699	-	7,216
Rental income	8,400	904,644	-	(904,644)	8,400
Other revenue	451,820	-	-	-	451,820
Total revenues	<u>11,551,088</u>	<u>905,178</u>	<u>328,598</u>	<u>(1,180,543)</u>	<u>11,604,321</u>
EXPENSES:					
Program services	8,032,368	579,025	-	(1,090,079)	7,521,314
Management and general	2,010,918	487,406	-	(90,464)	2,407,860
Total expenses	<u>10,043,286</u>	<u>1,066,431</u>	<u>-</u>	<u>(1,180,543)</u>	<u>9,929,174</u>
Change in unrestricted net assets	1,507,802	(161,253)	328,598	-	1,675,147
TEMPORARILY RESTRICTED NET ASSETS					
Other state revenue	13,754	-	-	-	13,754
Contributions	524	-	-	-	524
Change in temporarily restricted net assets	<u>14,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,278</u>
Other Financing Sources (Uses)					
Distribution from LLC	110,000	(110,000)	-	-	-
Change in net assets	<u>1,632,080</u>	<u>(271,253)</u>	<u>328,598</u>	<u>-</u>	<u>1,689,425</u>
Beginning net assets	<u>3,343,037</u>	<u>(946,615)</u>	<u>1,069,563</u>	<u>-</u>	<u>3,465,985</u>
Ending net assets	<u>\$ 4,975,117</u>	<u>\$ (1,217,868)</u>	<u>\$ 1,398,161</u>	<u>\$ -</u>	<u>\$ 5,155,410</u>

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

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016**

	Port of LA High School	POLAHS, LLC	POLAHS Inc.	Total
CASH FLOWS from OPERATING ACTIVITIES:				
Change in net assets	\$ 1,632,080	\$ (271,253)	\$ 328,598	\$ 1,689,425
Adjustments to reconcile change in net assets to net cash flows from operating activities:				
Depreciation	39,272	303,126	-	342,398
Change in operating assets:				
Accounts receivable - federal and state	(99,751)	-	-	(99,751)
Accounts receivable - other	(14,591)	90,460	(5,000)	70,869
Prepaid expenses and other assets	138,094	-	-	138,094
Change in operating liabilities:				
Deferred revenue	17,058	-	-	17,058
Accounts payable and accrued liabilities	2,717	-	-	2,717
Net cash flows from operating activities	1,714,879	122,333	323,598	2,160,810
CASH FLOWS used in INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(23,220)	-	-	(23,220)
Net cash flows used in investing activities	(23,220)	-	-	(23,220)
Net change in cash and cash equivalents	1,691,659	122,333	323,598	2,137,590
Cash and cash equivalents at the beginning of the year	1,583,237	81,448	1,064,563	2,729,248
Cash and cash equivalents at the end of the year	\$ 3,274,896	\$ 203,781	\$ 1,388,161	\$ 4,866,838
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest during the fiscal year	\$ 12,462	\$ 487,406	\$ -	\$ 499,868

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

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016**

	Program Services	Management and General	Eliminations	Total Expenses
Salaries and wages	\$ 3,849,147	\$ 1,219,003	\$ -	\$ 5,068,150
Pension expense	408,126	129,251	-	537,377
Other employee benefits	437,698	138,616	-	576,314
Payroll taxes	112,377	35,589	-	147,966
Management fees	83,368	-	-	83,368
Legal expenses	57,095	-	-	57,095
Accounting expenses	-	21,302	-	21,302
Instructional materials	390,365	-	-	390,365
Other fees for services	276,974	264,316	-	541,290
Advertising and promotion expenses	3,935	-	-	3,935
Office expenses	349,304	-	-	349,304
Occupancy expenses	1,065,475	118,386	(904,644)	279,217
Travel expenses	19,062	-	-	19,062
Conference and meeting expenses	8,754	-	-	8,754
Interest expense	-	499,868	-	499,868
Depreciation expense	338,471	3,927	-	342,398
Insurance expense	-	68,066	-	68,066
Charitable contributions	275,899	-	(275,899)	-
Other expenses	935,343	-	-	935,343
	<u>\$ 8,611,393</u>	<u>\$ 2,498,324</u>	<u>\$ (1,180,543)</u>	<u>\$ 9,929,174</u>

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

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Port of Los Angeles High School

Port of Los Angeles High School (the School) is a public comprehensive charter high school serving grades 9 through 12. The School provides an innovative college preparatory core academic curriculum with operational specializations in business, maritime education, international trade, transportation, labor, commerce and foreign language. In addition to offering a curriculum based upon high academic standards, the School works in partnerships with community groups, local businesses, and civic organizations to provide students with unique learning environments, hands-on projects, and the chance to discover all of the varied professional career opportunities that exist in the area of international trade.

POLAHS Facilities, LLC

In May 2011, the School formed the POLAHS Facilities, LLC (the LLC) exclusively for the acquisition of property and assets of Port of Los Angeles High School, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The School makes lease payments to the LLC, in accordance with the lease agreement dated October 13, 2011.

The School is the sole member of the LLC.

POLAHS, Inc.

POLAHS, Inc. (the Corporation) was formed by Port of Los Angeles Charter High School and has a financial and operational relationship to the School.

The Corporation was formed during 2011, for the specific purpose of providing financial assistance to enhance the educational, cultural, and community programs of the School.

Principles of Consolidation – The accompanying financial statements include the accounts of Port of Los Angeles High School (the School) and its single member LLC, POLAHS Facilities, LLC (the LLC). The financial statements also include the accounts of POLAHS, Inc. (the Corporation), a California non-profit public benefits corporation. The entities constitute the Port of Los Angeles High School and its Affiliates (the Organization). All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents – The Organization defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted Cash and Cash Equivalents – The Organization has restricted cash and cash equivalents required to be maintained under the terms of various loan and guarantee agreements. See additional information in Note 6.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Functional Allocation of Expenses – Costs of providing the Organization’s programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

Net Asset Classes – The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the Organization are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the Organization.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The Organization had \$20,128 temporarily restricted net assets as of June 30, 2016.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the Organization. The Organization did not have any permanently restricted net assets as of June 30, 2016.

Receivables – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2016. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the Organization is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences – Accumulated unpaid employee vacation benefits are recognized as a liability of the Organization. The current portion of the liability, if material, is recognized at year-end. The entire compensated absences liability is reported on the statement of financial position. Employees of the Organization are paid for days or hours worked based upon Board approved schedules which include vacation. Sick leave with pay is provided when employees are absent for health reasons.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the Organization based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Unrestricted/Designated Net Assets – Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016 the Organization had \$2,532,799 in designated net assets.

Income Taxes – The School, the LLC, and the Corporation are non-profit entities exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School, the LLC, and the Corporation file informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Evaluation of Subsequent Events – The Organization has evaluated subsequent events through November 1, 2016, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. The Organization capitalizes all expenditures for land, buildings and equipment in excess of \$5,000. Depreciation expense was \$342,398 for the year ended June 30, 2016.

The components of property, plant and equipment as of June 30, 2016 are as follows:

	Port of LA High School	POLAHS, LLC	Total
Land	\$ -	\$ 1,840,000	\$ 1,840,000
Building	-	6,060,000	6,060,000
Furniture, fixtures, equipment	149,775	757,900	907,675
Leasehold improvements	855,806	1,137,946	1,993,752
	<u>1,005,581</u>	<u>9,795,846</u>	<u>10,801,427</u>
Less accumulated depreciation	(209,900)	(1,417,495)	(1,627,395)
Property, plant and equipment, net	<u>\$ 795,681</u>	<u>\$ 8,378,351</u>	<u>\$ 9,174,032</u>

NOTE 4: LONG-TERM DEBT

Notes Payable

In October 2011, the LLC entered into a loan transaction with Self-Help New Markets LLC (Self-Help) for the purpose of acquiring, holding, and leasing real property and facilities to the School. Under the terms of the Construction Loan and Security Agreement with Self-Help the LLC borrowed \$9,800,000 under three separate note agreements (Note A, B, and C). The notes mature from 2019 to 2041. All notes bear an interest rate of 4.892 percent.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 4: LONG-TERM DEBT

The annual notes payable principal payments outstanding as of June 30, 2016 are as follows:

Year Ended June 30,	Note A	Note B	Note C	Total
2017	\$ -	\$ -	\$ -	\$ -
2018	-	-	-	-
2019	5,193,381	2,225,734	11,429	7,430,544
2020	-	-	57,268	57,268
2021	-	-	60,495	60,495
Thereafter	-	-	2,251,693	2,251,693
Total	<u>\$ 5,193,381</u>	<u>\$ 2,225,734</u>	<u>\$ 2,380,885</u>	<u>\$ 9,800,000</u>

NOTE 5: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the State of California.

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and state contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization has no plans to withdraw from this multi-employer plan.

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total STRS plan net assets are \$181 billion, the total actuarial present value of accumulated plan benefits is \$242 billion, contributions from all employers totaled \$2.55 billion, and the plan is 68.5% funded. The School did not contribute more than 5% of the total contributions to the plan.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 5: EMPLOYEE RETIREMENT

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Funding Policy

Active plan members hired before December 31, 2012 are required to contribute 9.20% of their salary and those hired after are required to contribute 8.56% of their salary. 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 STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for year ended June 30, 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

The School's contributions to STRS for the past three years are as follows:

Year Ended <u>June 30,</u>	Required <u>Contribution</u>	Percent <u>Contributed</u>
2014	\$ 323,842	100%
2015	\$ 381,955	100%
2016	\$ 456,819	100%

Public Employees' Retirement System (PERS)

Plan Description

The School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by CalPERS. Plan information for PERS is not publicly available. 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, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the School Employer Pool total plan assets are \$56.8 billion, the total actuarial present value of accumulated plan benefits is \$86 billion, contributions from all employers totaled \$1.3 billion, and the plan is 77.5% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the CalPERS' annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 5: EMPLOYEE RETIREMENT

Funding Policy

Active plan members brought into PERS membership prior to January 1, 2013 are required to contribute 7.0% of their salary while new members after January 1, 2013 are required to contribute 6.0% of their salary. 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 rate for year ended June 30, 2016 was 11.847%. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to PERS

The School's contributions to PERS for each of the last three years are as follows:

Year Ended <u>June 30,</u>	Required <u>Contribution</u>	Percent <u>Contributed</u>
2014	\$ 77,279	100%
2015	\$ 155,560	100%
2016	\$ 80,558	100%

NOTE 6: RELATED PARTY TRANSACTIONS

Construction Loan and Related Agreements

On October 13, 2011, the LLC entered into a Construction Loan and Security Agreement with Self-Help New Markets VIII, LLC under which the LLC borrowed \$9,800,000 under three separate Promissory Notes ((Promissory Note A: \$5,193,381 principal amount, 4.892 percent interest rate, matures March 17, 2019; Promissory Note B: \$2,225,734 principal amount, 4.892 percent interest rate, matures March 17, 2019; and Promissory Note C: \$2,380,885 principal amount, 4.892 interest rate, matures March 17, 2041, (collectively, the "Promissory Notes") (the "Loan" or "Loan Agreement")). The Loan is secured by all assets of the LLC including, but not limited to, the land and building facilities occupied by the School. In addition to principal and interest payments, the Loan Agreement requires the LLC to make monthly deposits of \$1,816 into a capital reserve account until the account has reached a minimum of \$152,544. For the year ended June 30, 2016, the LLC made deposits of \$22,327 into the capital reserve account. At June 30, 2016 the balance in the capital reserve account was \$102,927 and is reflected as restricted cash and cash equivalents in the consolidating statement of financial position.

With respect to Promissory Note C, Self-Help and the Corporation entered into a certain Put Option Agreement dated October 13, 2011, ("Put Option"). Under the terms of the Put Option, Self-Help has the right to sell Promissory Note C to the Corporation on or after the later of either March 17, 2019, or the maturity date of Promissory Note A or B. This put right will continue through the later of (a) May

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6: RELATED PARTY TRANSACTIONS

31, 2019, or (b) the date that is twenty calendar days after the Corporation provides notice to Self-Help that the period for exercising the put right has commenced. The sale price of Promissory Note C to the Corporation under this agreement is \$1,000.

Additionally, to induce Self-Help to enter into the Loan Agreement, both the School and the Corporation were required to enter into a Guaranty Agreement with Self-Help ("Guaranty Agreement") under which the School and the Corporation have guaranteed the performance and repayment of the Promissory Notes. As further security for the performance of the School and the Corporation under the Guaranty Agreement, the Corporation was required to establish and make deposits into a Sinking Fund Account ("Sinking Fund Account") and the School was required to establish and make deposits into a Debt Service and Operating Reserve Account ("Operating Reserve Account").

Specifically, under the terms of the Guaranty Agreement, commencing November 1, 2011, and ending March 1, 2019, the Corporation is required to make monthly deposits of \$22,991 into the Sinking Fund Account. At June 30, 2016, \$1,292,706 had been deposited into the Sinking Fund Account. Additionally, under the terms of the Guaranty Agreement, on October 13, 2011, the School was required to make an initial deposit of \$765,000 into the Operating Reserve Account and commencing November 1, 2012, and continuing thereafter, is required to make monthly deposits in the amount of \$8,333 into this account. At June 30, 2016, \$1,137,166 had been deposited into the Operating Reserve Account.

Further, both the Sinking Fund Account and the Operating Reserve Account (the "Accounts") are subject to separate Pledge and Blocked Account Control Agreements (the "Pledge Agreements") under which Self-Help has been granted a security interest in the Accounts. Under the terms of the Pledge Agreements, both the School and the Corporation are prohibited from withdrawing or transferring funds from the Accounts. Funds held in the Accounts will be released to the School and the Corporation on the date upon which Promissory Note A and Promissory Note B are paid in full. The proceeds in the Accounts are reflected as restricted cash and cash equivalents in the Consolidating Statement of Financial Position. The restricted cash and cash equivalents balance at June 30, 2016, was \$2,532,799.

In addition to the Loan and Guarantee Agreements described above, the LLC and the Corporation entered into a separate Contribution Agreement dated October 13, 2011 (the "Contribution Agreement"). Under the terms of the Contribution Agreement and in support of the Corporation entering in the Guarantee Agreement, beginning on November 1, 2011, and on the first day of each month thereafter while the Promissory Notes remain outstanding, the LLC is required to contribute cash in the amount of \$22,991 to the Corporation. Such contribution payments are reflected as charitable contribution expense and charitable contributions and local revenues in the LLC's and the Corporation's Statement of Activities and are eliminated on a consolidated basis. For the year ended June 30, 2016, these contribution payments were \$275,899.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6: RELATED PARTY TRANSACTIONS

Operating Lease

On October 13, 2011 the School entered into a long-term lease agreement with the LLC under which the School rents building facilities from the LLC. Under the terms of this lease agreement, the School is required to make monthly lease payments to the LLC in the amounts of \$75,387 through October 1, 2041. Such rent payments are reflected as rental expense and rental income in the Statement of Activities. Payments made under this lease agreement are eliminated on a consolidated basis. Lease expense under this agreement for the year ended June 30, 2016 was \$904,644.

Future minimum lease payments are as follows:

Year Ended <u>June 30,</u>		
2017	\$	904,644
2018		904,644
2019		904,644
2020		904,644
2021		904,644
Thereafter		<u>18,394,428</u>
Total	\$	<u><u>22,917,648</u></u>

NOTE 7: CONTINGENCIES

The Organization has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

SUPPLEMENTARY INFORMATION

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2016**

Port of Los Angeles High School (the School) petitioned through Los Angeles Unified School District (the District) for a charter. The School was approved by the California Department of Education on May 7, 2003; however, the first attending class and the first year of the School operation was the fiscal year ended June 30, 2006. The School was renewed by the District for a period of five years ending in 2018. The charter may be revoked by the District for material violations of the charter, failure to meet or make progress toward student outcomes, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

The charter school number is: 0542

PORT OF LOS ANGELES HIGH SCHOOL

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (continued)
For the Year Ended June 30, 2016**

The Board of Directors and the Administrators as of the year ended June 30, 2016 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term (in years)</u>	<u>Term Expires</u>
Sandy Bradley	President	2	June 2016
Leigh Cross	Vice President	2	June 2017
Mark Martis	Treasurer	2	June 2016
Kathleen Daly	Secretary	1	June 2016
Eric Eisenberg	Trustee	2	June 2016
Patrick Gannon	Trustee	2	June 2017
Marcia Haskin	Trustee	1	June 2016
John Kostrencich	Trustee	2	June 2017
Jenny Krusoe	Trustee	2	June 2017
Lanny Nelms	Trustee	2	June 2016
Camilla Townsend	Trustee	2	June 2016

ADMINISTRATORS

Gaetano "Tom" Scotti	Principal
Felicia Ivie	Assistant Principal

PORT OF LOS ANGELES HIGH SCHOOL

**SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016**

	<u>Instructional Minutes</u>		<u>Instructional Days</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>		
Grade 9	64,800	67,575	185	In compliance
Grade 10	64,800	67,170	185	In compliance
Grade 11	64,800	67,170	185	In compliance
Grade 12	64,800	67,170	185	In compliance

See independent auditor's report and the notes to the supplementary information.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016**

	Second Period Report		Annual Report	
	Classroom		Classroom	
	Based	Total	Based	Total
Grades 9-12	934.97	934.97	932.47	932.47
ADA Totals	934.97	934.97	932.47	932.47

See independent auditor's report and the notes to the supplementary information.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

There were no differences between the unrestricted net assets reported on the June 30, 2016 Annual Financial Report and the audited fund balances (net assets).

See independent auditor's report and the notes to the supplementary information.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of the Education Code.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Port of Los Angeles High School and its Affiliates
San Pedro, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidating financial statements of Port of Los Angeles High School and its Affiliates (the Organization), a nonprofit California public benefit corporation, which comprise the consolidating statement of financial position as of June 30, 2016, and the related consolidating statements of activities, cash flows and functional expenses for the year then ended, the related notes to the consolidating financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 1, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Port of Los Angeles High School
San Pedro, CA

We have audited Port of Los Angeles High School's (the School) compliance with the types of compliance requirements described in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2016. The School's State compliance requirements are identified in the table below.

Management's Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the School's compliance.

Compliance Requirements Tested

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

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Not applicable
After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Not applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Yes

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
November 1, 2016

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

All audit findings must be identified as one or more of the following twelve categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
50000	Federal Compliance
60000	Miscellaneous
62000	Local Control Accountability Plan
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements or state awards for the year ended June 30, 2016.

**PORT OF LOS ANGELES HIGH SCHOOL
AND ITS AFFILIATES**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

There were no findings and questioned costs related to the basic financial statements or state awards for the prior year.