

ARARAT CHARTER SCHOOL

LOS ANGELES COUNTY

LOS ANGELES, CALIFORNIA

AUDIT REPORT

JUNE 30, 2013

ARARAT CHARTER SCHOOL
Financial Statements and Supplemental Information
Year Ended June 30, 2013

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Independent Auditor's Report

To the Board of Directors
Ararat Charter School
Los Angeles, California

Report on Financial Statements

We have audited the accompanying financial statements of Ararat Charter School, which comprise the statement of financial position as of June 30, 2013, 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 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 consolidated 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 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 School'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 School'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 Ararat Charter School as of June 30, 2013, 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, as required by the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*, published by the Education Audit Appeals Panel is presented for purposes of additional analysis and is not a required part of the 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 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 our report dated October 28, 2013 on our consideration of Ararat Charter School'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 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 Ararat Charter School's internal control over financial reporting and compliance.

Wilkinson Hadley King & Co., LLP

El Cajon, California
October 28, 2013

FINANCIAL STATEMENTS

ARARAT CHARTER SCHOOL
Statement of Financial Position
June 30, 2013

ASSETS

Current Assets

| | | |
|-----------------------------|----|------------------|
| Cash and cash equivalents | \$ | 269,970 |
| Accounts receivable | | 793,245 |
| Prepaid expenditures | | 570 |
| Other current assets | | 69 |
| Total Current Assets | | <u>1,063,854</u> |

TOTAL ASSETS \$ 1,063,854

LIABILITIES AND NET ASSETS

Current Liabilities

| | | |
|----------------------------------|----|----------------|
| Accounts payable | \$ | 55,891 |
| Accrued payroll | | 83,082 |
| Charter school revolving loan | | 20,000 |
| Total Current Liabilities | | <u>158,973</u> |

Long Term Liabilities

| | | |
|---|--|----------------|
| Charter school revolving loan, less current portion | | 40,000 |
| Total Liabilities | | <u>198,973</u> |

Net Assets

| | | |
|-------------------------|--|----------------|
| Unrestricted | | 864,881 |
| Total Net Assets | | <u>864,881</u> |

TOTAL LIABILITIES AND NET ASSETS \$ 1,063,854

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

ARARAT CHARTER SCHOOL

Statement of Activities

Year Ended June 30, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-------------------|
| REVENUE AND SUPPORT | | | |
| Revenue | | | |
| Charter school general purpose grant | \$ 1,098,911 | \$ - | \$ 1,098,911 |
| Federal revenue | - | 141,714 | 141,714 |
| Charter school general purpose grant | 250,209 | - | 250,209 |
| Other state revenue | 254,517 | 10,892 | 265,409 |
| Property taxes | 413,772 | - | 413,772 |
| Other local revenue | 21,775 | - | 21,775 |
| Total Revenues | <u>2,039,184</u> | <u>152,606</u> | <u>2,191,790</u> |
| Net assets released from restrictions: | | | |
| Grant restrictions satisfied | <u>152,606</u> | <u>(152,606)</u> | <u>-</u> |
| TOTAL REVENUE AND SUPPORT | <u>2,191,790</u> | <u>-</u> | <u>2,191,790</u> |
| EXPENSES | | | |
| Salaries and wages | 958,099 | - | 958,099 |
| Employee benefits | 326,667 | - | 326,667 |
| Books and supplies | 146,385 | - | 146,385 |
| Services and operating expenses | 362,062 | - | 362,062 |
| Interest | 394 | - | 394 |
| Special Education fair cost | 88,404 | - | 88,404 |
| Oversight fees | 17,617 | - | 17,617 |
| TOTAL EXPENSES | <u>1,899,628</u> | <u>-</u> | <u>1,899,628</u> |
| CHANGE IN NET ASSETS | 292,162 | - | 292,162 |
| NET ASSETS, BEGINNING OF YEAR | <u>572,719</u> | <u>-</u> | <u>572,719</u> |
| NET ASSETS, END OF YEAR | <u>\$ 864,881</u> | <u>\$ -</u> | <u>\$ 864,881</u> |

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

ARARAT CHARTER SCHOOL
Statement of Cash Flows
Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------|
| Change in Net Assets | \$ 292,162 |
| Depreciation | - |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| (Increase) Decrease resulting from changes in assets: | |
| Other current assets | (69) |
| Accounts receivable | (162,657) |
| Prepaid expenses | 23,408 |
| Accounts payable | 12,122 |
| Increase (Decrease) resulting from changes in liabilities: | |
| Accrued expenses | <u>5,340</u> |

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES 170,306

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|----------------------------|------------------|
| Payments of long term debt | <u>(100,000)</u> |
|----------------------------|------------------|

NET CASH USED IN FINANCING ACTIVITIES (100,000)

NET INCREASE IN CASH AND CASH EQUIVALENTS 70,306

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 199,664

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 269,970

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

ARARAT CHARTER SCHOOL

Notes to the Financial Statements

Year Ended June 30, 2013

A. Organization and Summary of Significant Accounting Policies

Organization

Ararat Charter School (the "School"), a nonprofit organization, was organized in 2010 in the State of California. The School's mission is to provide quality education to students in kindergarten through fifth grade. Ararat Charter School was formed as a charter school pursuant to California Education Code Section 47600 under a charter agreement with the Los Angeles Unified School District.

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.

The School 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, the School considers all highly liquid debt equity instruments purchased with an original maturity of three months or less to be cash equivalents.

A. Organization and Summary of Significant Accounting Policies (Continued)

Investments

The 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.

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. The 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 the School prior to the School meeting the requirements for legal claim to the resources.

In subsequent periods, when both revenue recognition criteria are met or when the School 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.

ARARAT CHARTER SCHOOL
Notes to the Financial Statements, Continued
Year Ended June 30, 2013

A. Organization and Summary of Significant Accounting Policies (Continued)

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. The School receives services donated by volunteers in carrying out the School's operations. The services do not meet the criteria as contributions and are, therefore, not recognized in the financial statements.

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. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Block Grant Revenues and Payments in Lieu of Property Taxes

The School's primary funding source is a combination of local property taxes and state revenues. The California Department of Education computes two block grants based 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. The balance is paid from the state General Fund, in the form of the General Purpose Block Grant and the Categorical Block Grant.

Advertising

Advertising costs are expensed when incurred.

Income Taxes

The School 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. The School is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. The School may be subject to tax on income which is not related to its exempt purpose. For the year ended June 30, 2013, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The School follows provisions of uncertain tax positions as addressed in ASC 958. The School 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, 2013.

ARARAT CHARTER SCHOOL
Notes to the Financial Statements, Continued
Year Ended June 30, 2013

A. Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes (continued)

The School 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.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 28, 2013, the date the financial statements were available to be issued.

B. Cash and Cash Equivalents

Cash in Bank

The School's cash (\$269,970 as of June 30, 2013) 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. As of June 30, 2013, the School did not have any cash that was exposed to uninsured deposit risk.

C. Accounts Payable

As of June 30, 2013 accounts payable consisted of:

| | <u>Accounts Payable</u> |
|----------------------------|-----------------------------|
| Vendors payable | \$ 37,228 |
| Payroll payables | 848 |
| Other liabilities | <u>17,815</u> |
| Total Accounts Payable | <u>\$ 55,891</u> |

ARARAT CHARTER SCHOOL
Notes to the Financial Statements, Continued
Year Ended June 30, 2013

D. Accounts Receivable

As of June 30, 2013 accounts receivable consisted of:

| | <u>Accounts Receivable</u> |
|-----------------------------|--------------------------------|
| Federal Government: | |
| Federal Grants | \$ 1,152 |
| State Government: | |
| General Purpose Block Grant | 591,182 |
| Categorical Block Grant | 116,182 |
| Lottery Revenue | 19,805 |
| Other State Grants | 12,284 |
| Local Sources: | |
| In Lieu of Property Taxes | 1,238 |
| Other Local Sources | <u>51,402</u> |
| Total Accounts Receivable | <u>\$ 793,245</u> |

E. Operating Lease

The School has entered into operating leases with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the School will cancel any of the agreements prior to the expiration date.

Future minimum lease payments under these agreements are as follows:

| <u>Year Ended June 30,</u> | <u>Lease Payments</u> |
|--------------------------------|---------------------------|
| 2014 | <u>\$ 356</u> |
| Total | <u>\$ 356</u> |

ARARAT CHARTER SCHOOL
Notes to the Financial Statements, Continued
Year Ended June 30, 2013

F. Functional Expenses

As of June 30, 2013 functional expenses consisted of:

| | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> |
|---|-------------------------|-----------------------------------|---------------------|
| Other salaries and wages | 841,107 | 116,992 | 958,099 |
| Pension plan accruals and contributions | 68,856 | 9,554 | 78,410 |
| Other employee benefits | 198,606 | 49,651 | 248,257 |
| Interest expense | - | 394 | 394 |
| Food service | 1,126 | 281 | 1,407 |
| Travel and conferences | 7,390 | 1,847 | 9,237 |
| Insurance | - | 18,589 | 18,589 |
| Legal and accounting | 47,522 | 1,880 | 49,402 |
| Oversight fees | 14,094 | 3,523 | 17,617 |
| Books and supplies | 117,444 | 20,462 | 137,906 |
| Non-capitalized equipment | 5,658 | 1,414 | 7,072 |
| Dues and memberships | 5,072 | 1,268 | 6,340 |
| Licenses and fees | 1,151 | 288 | 1,439 |
| Operations/housekeeping | 1,933 | 483 | 2,416 |
| Miscellaneous | - | 8,213 | 8,213 |
| Communications | 20,362 | 5,090 | 25,452 |
| Advertising | 1,438 | 359 | 1,797 |
| Technology | 14,892 | 3,723 | 18,615 |
| Rents and leases | 69,408 | 17,352 | 86,760 |
| Rents-equipment | 8,025 | 2,006 | 10,031 |
| Repairs | 30,158 | 7,539 | 37,697 |
| Special Education fair share | 88,404 | - | 88,404 |
| Fingerprinting | 408 | 102 | 510 |
| Consultants | 1,238 | 4,527 | 5,765 |
| Contracted services | 69,799 | - | 69,799 |
| | <hr/> | <hr/> | <hr/> |
| Total expenses | <u>\$ 1,614,091</u> | <u>\$ 275,537</u> | <u>\$ 1,889,628</u> |

ARARAT CHARTER SCHOOL
Notes to the Financial Statements, Continued
Year Ended June 30, 2013

G. Loan Payable

In June 2010 the School obtained a loan under the Charter School Revolving Loan Program. Then principal balance was \$100,000 and interest will be charged at a rate of 0.52%. The term of the loan is five years. Remaining payments on the loan are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|------------------|---------------|------------------|
| 2014 | \$ 20,000 | \$ 290 | \$ 20,290 |
| 2015 | 20,000 | 186 | 20,186 |
| 2016 | <u>20,000</u> | <u>82</u> | <u>20,082</u> |
| Total | <u>\$ 60,000</u> | <u>\$ 558</u> | <u>\$ 60,558</u> |

H. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

The School 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.

Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulate sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, it is not appropriate to accrue the value of the accumulated sick leave.

I. 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 (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

STRS:

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by STRS. 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.

ARARAT CHARTER SCHOOL

Notes to the Financial Statements, Continued
Year Ended June 30, 2013

I. Employee Retirement System (Continued)

STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Active plan members are required to contribute 8% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The School's contributions to STRS for the fiscal year ended June 30, 2013, 2012, and 2011 were \$68,856, \$67,246, and \$35,541 respectively. During the 2012-13 fiscal year the California Department of Education contributed \$43,532 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 2012-13 were 11.417% of salaries. The contribution requirements of the plan members are established by state statute. The School's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012 and 2011 were \$9,554, \$8,157, and \$4,921 respectively.

Public Agency Retirement System (PARS):

The Omnibus Budget reconciliation Act of 1990 [Internal Revenue Code Section 3121 (b)(7)(F)] requires state and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security. These employees are primarily part-time, seasonal and temporary employees (PSTs). This Act also requires that contributions for PSTs be vested immediately and permits any split of the minimum contributions between employee and employer.

The plan covers the School's part-time, seasonal, temporary and other employees not covered under CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax, PARS is a defined contribution qualified retirement plan under Section 401(a) of the Internal Revenue Code.

I. Employee Retirement System (Continued)

The minimum total contribution is 7.5% of employee's salaries, of which the School and the employees contribute 3.75% each. Employees are vested 100% in both employer and employee contributions from the date of membership. Upon resignation, retirement, or death prior to retirement, the employee or the beneficiary will receive 100% of the amount credited to the employee account, including any share of net funds gains or losses after payment of administrative expenses. If at any time of distribution the amount of the employee's account is less than \$3,500, it will be paid in one lump sum. If the amount is \$3,500 or greater, the employee may elect to receive it in one lump sum, or leave it with PARS until the normal retirement age (60) is reached, and then receive it as a lump sum.

SUPPLEMENTAL INFORMATION

ARARAT CHARTER SCHOOLOrganization Structure
Year Ended June 30, 2013

Ararat Charter School (Charter #1156) was established in 2008. The authorizing entity is Los Angeles Unified School District. Ararat Charter School was approved for a five year charter term.

GOVERNING BOARD

| <u>Name</u> | <u>Office</u> | <u>Term</u> |
|--------------------------|----------------|---------------------------------|
| Dr. Berjouhi Koukeyan | Chairperson | December 2012 to December 2015 |
| Ms. Hermine Mahseredjian | Co-Chairperson | September 2008 to December 2013 |
| Dr. Silva Karayan | Secretary | September 2008 to December 2013 |
| Ms. Amaly Avakian | Treasurer | December 2011 to November 2013 |
| Mr. John Henderson | Co-Treasurer | August 2010 to November 2013 |
| Ms. Shakeh Avakian | Member | December 2011 to December 2014 |
| Mr. Gabriel Injejikian | Member | December 2012 to December 2015 |
| Dr. Ani Shabazian | Member | December 2011 to December 2014 |

ADMINISTRATION

Mr. Vahe Boujekian
Principal

ARARAT CHARTER SCHOOL
 Schedule of Average Daily Attendance
 Year Ended June 30, 2013

| | Second Period Report | | Annual Report | |
|----------------------------------|----------------------|------------|---------------|------------|
| | Original | Revised | Original | Revised |
| Classroom Based Attendance: | | | | |
| Kindergarten | 42.03 | N/A | 42.09 | N/A |
| Grades 1-3 | 203.24 | N/A | 203.46 | N/A |
| Grades 4-6 | 49.81 | N/A | 49.76 | N/A |
| Total Classroom Based Attendance | <u>295.08</u> | <u>N/A</u> | <u>295.31</u> | <u>N/A</u> |

N/A – There were no audit findings which resulted in revisions to the second period or annual reports of attendance.

Average daily attendance (ADA) is a measure 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 and in different programs.

ARARAT CHARTER SCHOOL
Schedule of Instructional Time
Year Ended June 30, 2013

| <u>Grade Level</u> | <u>Minutes Requirement</u> | <u>2012-13 Actual Minutes</u> | <u>Number of Traditional Days</u> | <u>Status</u> |
|--------------------|----------------------------|-------------------------------|-----------------------------------|---------------|
| Kindergarten | 34,971 | 64,250 | 180 | Complied |
| Grade 1 | 48,960 | 61,110 | 180 | Complied |
| Grade 2 | 48,960 | 61,110 | 180 | Complied |
| Grade 3 | 48,960 | 61,110 | 180 | Complied |
| Grade 4 | 52,457 | 55,460 | 180 | Complied |
| Grade 5 | 52,457 | 57,080 | 180 | Complied |

The School receives incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the School and whether they complied with the provisions of Education Code Sections 46200 through 46206. Charter schools must maintain their instructional minutes at the 1986-87 requirements as adjusted by Education Code sections later adopted.

Ararat Charter School must maintain their instructional minutes as required by Educational Code Section 46201.

ARARAT CHARTER SCHOOL
 Schedule of Financial Trends and Analysis
 Year Ended June 30, 2013

| | Budget | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2012 | 2011 |
| Revenues | <u>\$2,461,869</u> | <u>\$2,191,790</u> | <u>\$1,859,397</u> | <u>\$1,563,499</u> |
| Expenses | <u>2,358,776</u> | <u>1,899,628</u> | <u>1,779,780</u> | <u>1,070,397</u> |
| Change in Net Assets | <u>103,093</u> | <u>292,162</u> | <u>79,617</u> | <u>493,102</u> |
| Ending Net Assets | <u>\$ 967,975</u> | <u>\$ 864,881</u> | <u>\$ 572,719</u> | <u>\$ 493,102</u> |
| Unrestricted Net Assets | <u>\$ 967,975</u> | <u>\$ 864,881</u> | <u>\$ 572,719</u> | <u>\$ 493,102</u> |
| Unrestricted net assets as a percentage of total expenses | <u>41.03%</u> | <u>45.53%</u> | <u>32.18%</u> | <u>46.07%</u> |
| Total Long Term Debt | <u>\$ 20,000</u> | <u>\$ 40,000</u> | <u>\$ 60,000</u> | <u>\$ 80,000</u> |
| Average Daily Attendance at P2 | <u>336.00</u> | <u>295.08</u> | <u>244.63</u> | <u>112.65</u> |

This schedule discloses the School's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the School's ability to continue as a going concern for a reasonable period of time.

ARARAT CHARTER SCHOOL

**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2013**

| | |
|---|--------------------------|
| June 30, 2013 annual financial and budget report fund balance | <u>\$ 864,881</u> |
| Adjustments and reclassifications: | |
| Total adjustments and reclassifications | <u>-</u> |
| June 30, 2013 audited financial statement net assets | <u><u>\$ 864,881</u></u> |

This schedule provides the information necessary to reconcile the fund balance as reported on the Annual Financial and Budget Report Alternative Form to the net assets reported in the audited financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

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

To the Board of Directors
Ararat Charter School
Los Angeles, California

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 financial statements of Ararat Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ararat Charter School'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 Ararat Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School's 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ararat Charter School'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 noncompliance 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co., LLP

El Cajon, California
October 28, 2013

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

**WILKINSON HADLEY
KING & CO. LLP**
CPAs AND ADVISORS

Aubrey W. King, CPA
Richard K. Savage, CPA

Independent Auditor's Report on State Compliance

To the Board of Directors
Ararat Charter School
Los Angeles, California

Report on State Compliance

We have audited the School's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the School's state programs identified below for the fiscal year ended June 30, 2013.

Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit Guide *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. 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 State's audit guide *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below. 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. Our audit does not provide a legal determination of the School's compliance with those requirements.

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

| Description | Procedures in Audit Guide | Procedures Performed |
|---|---------------------------------|-------------------------|
| Local Education Agencies Other Than Charter Schools | | |
| Attendance Accounting: | | |
| Attendance Reporting | 6 | N/A |
| Teacher Certification and Misassignments | 3 | N/A |
| Kindergarten Continuance | 3 | N/A |
| Independent Study | 23 | N/A |
| Continuation Education | 10 | N/A |
| Instructional Time: | | |
| School Districts | 6 | N/A |
| County Offices of Education | 3 | N/A |
| Instructional Materials, General Requirements | 8 | N/A |
| Ratios of Administrative Employees to Teachers | 1 | N/A |
| Classroom Teacher Salaries | 1 | N/A |
| Early Retirement Incentive | 4 | N/A |
| Gann Limit Calculation | 1 | N/A |
| School Accountability Report Card | 3 | N/A |
| Juvenile Court Schools | 8 | N/A |
| School Districts and Charter Schools | | |
| Class Size Reduction: | | |
| General Requirements | 7 | N/A |
| Option One | 3 | N/A |
| Option Two | 4 | N/A |
| Only One School Serving Grades K-3 | 4 | N/A |
| After School Education and Safety Program: | | |
| General Requirements | 4 | N/A |
| After School Component | 5 | N/A |
| Before School Component | 6 | N/A |
| Charter Schools | | |
| Contemporaneous Records of Attendance | 1 | Yes |
| Mode of Instruction | 1 | Yes |
| Nonclassroom-Based Instruction/Independent Study | 15 | N/A |
| Determination of Funding for Nonclassroom Based Instruction | 3 | N/A |
| Annual Instructional Minutes – Classroom Based | 4 | Yes |

The term N/A is used above to mean either the School did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Ararat Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2013.

Wilkinson Hadley King & Co., LLP

El Cajon, California

October 28, 2013

FINDINGS AND RECOMMENDATIONS

ARARAT CHARTER SCHOOL
Schedule of Auditor's Results
Year Ended June 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are
not considered material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

STATE AWARDS

Any audit findings disclosed that are required to be reported
in accordance with *Standards and Procedures for Audits*
of California K-12 Local Education Agencies? Yes X No

Type of auditor's report issued on compliance for state programs: Unmodified

ARARAT CHARTER SCHOOL
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

A. Financial Statement Findings

None

B. Federal Award Findings

None

C. State Award Findings

None

ARARAT CHARTER SCHOOL
Schedule of Prior Year Audit Findings
Year Ended June 30, 2013

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation if Not Implemented</u> |
|--|-----------------------|--|
| There were no findings reported in the prior year audit. | N/A | N/A |