

**LAS BANDERAS ACADEMY  
AT COLTON, INC.**

---

ANNUAL FINANCIAL REPORT

---

**JUNE 30, 2004**

LAS BANDERAS ACADEMY at COLTON, INC.  
(A California Non-Profit Public Benefit Corporation)

JUNE 30, 2004

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
NOTES TO FINANCIAL STATEMENTS	5
SUPPLEMENTARY INFORMATION	
Report on State Compliance	11
State Awards Findings and Questioned Costs	13
Schedule of Functional Expenses	15
Schedule of Average Daily Attendance	16
Schedule of Instructional Time	17
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	18
Note to Supplementary Information	19
Management Letter	20



## INDEPENDENT AUDITORS' REPORT

Governing Board  
Las Banderas Academy at Colton, Inc.  
Colton, California

We have audited the accompanying statement of financial position of the Las Banderas Academy at Colton, Inc. (A California Non-Profit Public Benefit Corporation) as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Las Banderas Academy at Colton, Inc. as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 10 to the financial statements, the Organization had deficit net assets of \$59,406 at June 30, 2004. This matter raises substantial doubt about the Organization's ability to continue as a going concern. Management's plan in regard to this matter is also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Las Banderas Academy at Colton, Inc. taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Las Banderas Academy at Colton, Inc. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 3, 2004

LAS BANDERAS ACADEMY AT COLTON, INC.

(A California Non-Profit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2004

ASSETS

Current Assets

Cash and cash equivalents	\$ 148,461
Accounts receivable	60,515
Prepaid expenses	15,809
Total Assets	<u>\$ 224,785</u>

LIABILITIES

Current Liabilities

Accounts payable	\$ 91,192
Current portion of long term liabilities	170,773
Total Current Liabilities	<u>261,965</u>

Long Term Liabilities

Note payable	22,226
Total Long Term Liabilities	<u>22,226</u>

Total Liabilities	<u>284,191</u>
-------------------	----------------

NET ASSETS (DEFICIT)

Unrestricted (Deficit)	<u>(59,406)</u>
Total Net Assets (Deficit)	<u>(59,406)</u>

Total Liabilities and Net Assets	<u>\$ 224,785</u>
----------------------------------	-------------------

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

LAS BANDERAS ACADEMY AT COLTON, INC.

(A California Non-Profit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

Revenue and Other Support

Revenue

Principal apportionment/State aid	\$ 1,410,992
Federal revenues	200,000
Other State revenues	99,959
Other local revenues	
Charter School's funding in-lieu of property taxes	212,652
Other	6,071
Total Revenue	<u>1,929,674</u>

Expenses

Program services	1,492,714
Management and general	437,067
Total Expenses	<u>1,929,781</u>

Change in Net Assets	(107)
Net Assets (Deficit), Beginning of Year	<u>(59,299)</u>
Net Assets (Deficit), End of Year	<u>\$ (59,406)</u>

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

LAS BANDERAS ACADEMY AT COLTON, INC.

(A California Non-Profit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (107)
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Changes in Assets and Liabilities	
Increase in accounts receivable	(46,297)
Increase in prepaids	(15,809)
Increase in accounts payable	78,040
Net cash provided by operating activities	<u>15,827</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable	126,413
Payments on note payable	<u>(35,387)</u>
Net provided by financing activities	<u>91,026</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

106,853

CASH AND CASH EQUIVALENTS, Beginning of Year

41,608

CASH AND CASH EQUIVALENTS, End of Year

\$ 148,461

Supplemental Information

Interest paid	<u>\$ 1,784</u>
---------------	-----------------

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

LAS BANDERAS ACADEMY at COLTON, INC.

(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

*NOTE #1 - ORGANIZATION*

Las Banderas Academy at Colton, Inc. (the Organization) is a California nonprofit public benefit corporation that was incorporated September 13, 2002. The purpose of the Corporation is to manage, operate, guide, direct and promote the Las Banderas Academy (A California Public School). The Organization became a charter school that was petitioned and approved November 7, 2002 through Colton Joint Unified School District (the District) and approved by the State of California Department of Education on January 9, 2003. The Organization provides educational programs for individuals not attending a traditional school. The Organization is supported by the state apportionment revenues generated by the student average daily attendance.

*NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Financial Statement Presentation

The Organization follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under the provisions of this statement, the Organization is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Organization uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization has been designated as an organization described in Section 501(c)(3) of the Internal Revenue Service Code (the Code). The Organization's income is exempt from federal income taxes under the Code and the corresponding section of the California Revenue and Taxation Code.

LAS BANDERAS ACADEMY at COLTON, INC.  
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

*NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued*

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

*NOTE #3 - CASH*

The Federal Depository Insurance Corporation insures cash balances held in banks and in revolving funds up to \$100,000. At June 30, 2004, the carrying amount of the Organization's deposits were \$148,461, and the bank balances were \$306,652.

*NOTE #4 - RECEIVABLES*

A. Accounts receivable at June 30 consisted of the following:

State categorical aid	\$ 13,408
Affiliated organization	32,965
Other local sources	14,142
Total Accounts Receivable	<u>\$ 60,515</u>

No allowance for uncollectible accounts receivable is deemed necessary.

*NOTE #5 - ACCOUNTS PAYABLE*

Accounts payable at June 30 consisted of the following:

Accrued salaries and benefits	\$ 8,167
Various vendors	7,919
Services	75,106
Total Accounts Payable	<u>\$ 91,192</u>

LAS BANDERAS ACADEMY at COLTON, INC.  
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

*NOTE #6 - OTHER LIABILITIES*

Note Payable

In 2003, the Organization entered into an agreement with Guajome Park Academy, Inc. (a California Non-Profit corporation) for an installment promissory note in the amount of \$128,386. The note is to be paid in equal monthly installments plus interest accruing on the outstanding balance commencing on January 1, 2004. The note shall be fully due on January 1, 2006. The balance of the note was \$92,999 as of June 30, 2004.

In 2004, the Organization entered into an agreement with Guajome Park Academy, Inc. (a California Non-Profit corporation) for an installment promissory note in the amount of \$100,000. The note is to be paid in full plus interest accruing on the outstanding balance on October 31, 2004. The balance of the note was \$100,000 as of June 30, 2004.

*NOTE #7 - EMPLOYEE RETIREMENT SYSTEMS*

Qualified employees are covered under multiple-employer contributory retirement plans maintained 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 Public Employees' Retirement System (PERS).

A. STRS

Plan Description

The Organization contributes to the California 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 and disability benefits and survivor benefits to beneficiaries. State statutes, as legislatively amended, within the State Teachers' Retirement Law, establish benefit provisions. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the Organization 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 2003-2004 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The Organization's contribution to STRS for the fiscal year ending June 30, 2004, \$45,037 and equal 100 percent of the required contributions for the year.

LAS BANDERAS ACADEMY at COLTON, INC.

(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

*NOTE #7 - EMPLOYEE RETIREMENT SYSTEMS, Continued*

B. PERS

Plan Description

The Organization 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, within the Public Employees' Retirement Laws. 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, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the Organization 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 fiscal year 2003-2004 was 10.84 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The Organization's contributions to CalPERS for the fiscal year ending June 30, 2004, were \$33,432 and equal 100 percent of the required contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS) must be covered by social security or an alternative plan. The Organization has elected to use the social security as its alternative plan.

D. On Behalf Payments

The State of California makes contributions to STRS on behalf of the Organization. These payments consist of State General Fund contributions to STRS in the amount of \$12,447 (2.28 percent of salaries subject to STRS). No contributions to PERS were required for the year ending June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

LAS BANDERAS ACADEMY at COLTON, INC.

(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

*NOTE #8 - COMMITMENTS AND CONTINGENCIES*

State and Federal Funds

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 expenditure disallowances under terms of the grants, in the opinion of management any required reimbursements will not be material.

*NOTE #9 - GOING CONCERN*

As of June 30, 2004, the Organization had deficit net assets of \$59,406. Of this amount, \$12,521 should have been designated for the State program. Available reserves are recommended at \$57,893, or three percent, of expenditures and other uses. Therefore, the Organization is \$117,299 below the recommended minimum amount.

The Organization's management has yet to finalize a plan to mitigate its financial uncertainties. Such a plan could include expenditure cuts during 2004-2005 and 2005-2006 or other required actions.

*NOTE #10 - RELATED PARTY*

Two board members of the Organization are also board members of the New Education for the Community, Inc. New Education for the Community, Inc. (NEC) is an organization formed for charitable purposes, including advancing the vocational and technical education and training of young men and women, and managing, operating, guiding, directing, and promoting charter schools. The Organization entered into an agreement with NEC effective July 1, 2003 and can be automatically renewed every two years. Under the agreement, NEC will provide the following services: human resources administration, accounting, curriculum licensing, technology services, and general administrative support.

---

---

**SUPPLEMENTARY INFORMATION**

---

---



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Las Banderas Academy at Colton, Inc.  
 Colton, California

We have audited the financial statements of the Las Banderas Academy at Colton, Inc. as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of Las Banderas Academy at Colton, Inc. is responsible for the Organization's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Las Banderas Academy at Colton, Inc.'s compliance with the State laws and regulations applicable to the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	6	Yes
Kindergarten continuance	3	Not Applicable
Independent study	22	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Not Applicable
Instructional Time:		
School districts	4	Yes
County Offices of Education	3	Not Applicable
Community day schools	9	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Class size reduction program:		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Not Applicable
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	Not Applicable

Based on our audit, we found that for the items tested, the Las Banderas Academy at Colton, Inc. complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs included in this report as 2004-1 through 2004-2. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Las Banderas Academy at Colton, Inc. had not complied with the laws and regulations, except as described in the Schedule of State Award Findings and Questioned Costs included in this report as 2004-1 through 2004-2.

This report is intended solely for the information and use of the Governing Board, management, the California Department of Education, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Varunak, Jane, Day & Co., LLP*

Rancho Cucamonga, California  
December 3, 2004

