

PEABODY CHARTER SCHOOL

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

PEABODY CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

Governing Board
Peabody Charter School
(A California Non-Profit Public Benefit Corporation)
Santa Barbara, California

We have audited the accompanying statement of financial position of Peabody Charter School (the Charter School) (A California Non-Profit Public Benefit Corporation) as of June 30, 2012, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Charter School'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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Charter School as of June 30, 2012, 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 America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, on our consideration of the 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 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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 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.

Vannink, Tein, Day & Co., LLP

Rancho Cucamonga, California
December 7, 2012

PEABODY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION JUNE 30, 2012

ASSETS

Current Assets

Cash and investments	\$ 1,495,532	
Accounts receivable	<u>625,909</u>	
Total Current Assets		<u>\$ 2,121,441</u>

Non-Current Assets

Fixed assets	158,871	
Less: accumulated depreciation	<u>68,129</u>	
Total Non-Current Assets		<u>90,742</u>

Total Assets		<u><u>\$ 2,212,183</u></u>
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LIABILITIES

Current Liabilities

Accounts payable	901,729	
Deferred revenue	<u>14,364</u>	
Total Liabilities		<u>\$ 916,093</u>

NET ASSETS

Unrestricted	<u>1,296,090</u>	
Total Net Assets		<u>1,296,090</u>
Total Liabilities and Net Assets		<u><u>\$ 2,212,183</u></u>

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

PEABODY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

REVENUES

Revenue Limit Sources	
In-lieu property taxes	\$ 3,720,112
Federal revenue	461,826
State revenue	1,134,062
Local revenues	1,060,880
Total Revenue	<u>6,376,880</u>

EXPENSES

Program Services	
Teacher salaries and benefits	3,322,239
Student supplies	327,248
Special Education and District fees	868,442
Depreciation	10,234
Total Program Services	<u>4,528,163</u>
Management and General	
Clerical salaries and benefits	1,171,868
Insurance	15,478
Operating expenses	843,099
Total Management and General	<u>2,030,445</u>
Total Expenses	<u>6,558,608</u>

DECREASE IN NET ASSETS	(181,728)
NET ASSETS, BEGINNING OF YEAR	<u>1,477,818</u>
NET ASSETS, END OF YEAR	<u>\$ 1,296,090</u>

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

PEABODY CHARTER SCHOOL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in unrestricted net assets	\$ (181,728)
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation expense	10,234
Portion of Inc.'s depreciation expense paid back to Inc.	
Changes in operating assets and liabilities:	
Increase in accounts receivable	(57,384)
Decrease in prepaid expenses	15,478
Increase in accounts payable	80,396
Decrease in deferred revenue	<u>(128,092)</u>
Net Cash Used by Operating Activities	<u>(261,096)</u>

NET DECREASE IN CASH	(261,096)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,756,628</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,495,532</u>

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

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 - ORGANIZATION AND MISSION

Peabody Charter School (the Charter School) is a non-profit public benefit corporation and was organized on June 2, 1993, under the laws of the State of California. The Charter School operates under a locally-elected 11 member Board form of government and provides educational services to grades K-6 as mandated by the State and/or Federal agencies. The Charter School operates one elementary school. Peabody Charter School opened on June 2, 1993, and currently serves 750 students in grades K-6. On March 13, 2007, the charter was renewed by the Santa Barbara Unified School District for five years ending in 2012. The charter was approved by the California Department of Education on August 13, 2001.

Charter school number authorized by the State: 0021

The Charter School's mission is to work collaboratively to create a safe, caring, innovative, and challenging academic program to prepare students for life by developing both academic and non-academic skills.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no permanently restricted net assets as of June 30, 2012. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School 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.

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Revenue Recognition

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

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions".

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 Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2009 and forward may be audited by regulatory agencies, however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. At June 30, 2012, there were investments deemed to be a cash equivalent.

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2012, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Furniture and equipment are depreciated using the straight-line method, over 3 to 5 years. For the year ended June 30, 2012, the Charter School had depreciation expense of \$10,234.

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, 2012, the Charter School had \$1,296,090 of unrestricted total net assets.

NOTE 3 - CASH

Cash at June 30, 2012, consisted of the following:

	Reported Amount	Bank Balance
Deposits		
Cash on hand and in banks	\$ 222,085	\$ 282,654

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School has not experienced any losses in such accounts. At June 30, 2012, the Charter School had \$32,654 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 4 - INVESTMENTS

Investments at June 30, 2012, consisted of the following:

	Reported Amount	Fair Market Value
Cash in County	\$ 1,273,447	\$ 1,275,612

NOTE 5 - FAIR MARKET VALUE MEASUREMENTS

Effective January 1, 2008, the Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in SFAS No. 157, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels, as defined by SFAS No. 157, used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Fair values of assets measured on a recurring basis at June 30, 2012, were as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
County Treasury Investment Pool	<u>\$ 1,275,612</u>	<u>\$ -</u>	<u>\$ 1,275,612</u>	<u>\$ -</u>

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2012, consisted of the following:

Playground equipment	\$ 113,057
Office equipment	<u>45,814</u>
	158,871
Less: accumulated depreciation	<u>(68,129)</u>
Total Fixed Assets	<u>\$ 90,742</u>

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consisted of the following:

Revenue limit sources	
In-lieu property taxes	<u>\$ 277,249</u>
Federal receivable	33,339
State receivable	312,601
Other local	<u>2,720</u>
Total Accounts Receivable	<u>\$ 625,909</u>

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

Salaries and benefits	\$ 22,766
Administrative fee	115,762
Special Education	702,680
Vendor payables	60,521
Total Accounts Payable	<u>\$ 901,729</u>

NOTE 9 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	<u>Amount</u>
Total deferred camp revenue	<u>\$ 14,364</u>

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and qualified classified employees are members of California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The Charter School contributes to CalSTRS through the Santa Barbara County Office of Education, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the Charter School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The Charter School's contributions to CalSTRS for the fiscal year ending June 30, 2012, 2011, and 2010, were \$208,926, \$222,753, and \$216,290, respectively, and equal 100 percent of the required contributions for the year.

CalPERS

Plan Description

The Charter School contributes to the Charter School Employer Pool under the 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 survivor 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, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the Charter 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 fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The Charter School's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$88,651, \$83,776, and \$78,290, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$116,394 (4.855 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 11 - CONTINGENCIES

The Charter School 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 reimbursement, if required, would not be material.

PEABODY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Litigation

The Charter School has no outstanding claims or litigation.

NOTE 12 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through December 7, 2012, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

PEABODY CHARTER SCHOOL

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

The Peabody Charter School, charter number 0021, was granted on June 2, 1993, by the State of California. The Charter School operates one elementary school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Elaine Gibson	Chair and Community Member	2013
Jason Spievak	Vice Chair and Parent Member	2014
Linda Stirling	Secretary and Certificated Member	2013
Christy Earls	Certificated Member	2014
Marco Silva	Certificated Member	2012
Laurel Lyle	Classified Member	2013
Lynn Hamilton	Community Member	2014
Lorraine Reichel	Community Member	2012
Andy Beale	Parent Member	2014
Amy Salamando	Parent Member	2014
Heather Stefanski	Parent Member	2014

ADMINISTRATION

Dana Sadan	Principal
Nancy Dow	Director of Fiscal Services/Consultant

See accompanying note to supplementary information.

PEABODY CHARTER SCHOOL

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2012

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY - Total		
Kindergarten	99	99
First through third	301	300
Fourth through sixth	328	329
Total Elementary	<u>728</u>	<u>728</u>
 ELEMENTARY - Classroom Based Instruction		
Kindergarten	99	99
First through third	301	300
Fourth through sixth	328	329
Total Elementary - Classroom Based Instruction	<u>728</u>	<u>728</u>

The Charter School did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

PEABODY CHARTER SCHOOL

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	*	*	36,000	34,971	52,400	180	-	Complied
Grades 1 - 3								
Grade 1	*	*	50,400	48,960	52,400	180	-	Complied
Grade 2	*	*	50,400	48,960	52,400	180	-	Complied
Grade 3	*	*	50,400	48,960	52,400	180	-	Complied
Grades 4 - 6								
Grade 4	*	*	54,000	52,500	57,800	180	-	Complied
Grade 5	*	*	54,000	52,500	57,800	180	-	Complied
Grade 6	*	*	54,000	52,500	57,800	180	-	Complied

* The Charter School was not operating in 1982-83.

The minutes requirement has been reduced pursuant to paragraph (b)(6)(A)(i) of the instructional time audit guide.

See accompanying note to supplementary information.

PEABODY CHARTER SCHOOL

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

PEABODY CHARTER SCHOOL

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Santa Barbara County Office of Education to Peabody Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by subdivision (a)(3) of *Education Code* Section 46201. Senate Bill 2 of the 2009-2010 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal years 2009-2010 through 2012-2013.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Charter School's unaudited financial report.

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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***

Governing Board
Peabody Charter School
(A California Non-Profit Public Benefit Corporation)
Santa Barbara, California

We have audited the financial statements of Peabody Charter School (the Charter School) (A California Non-Profit Public Benefit Corporation) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. 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.

Internal Control Over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter School's internal control over financial reporting as a basis for designing our auditing procedures 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 Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free of 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 *Governmental Auditing Standards*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vannink, Tien, Day & Co., LLP

Rancho Cucamonga, California
December 7, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Peabody Charter School
(A California Non-Profit Public Benefit Corporation)
Santa Barbara, California

We have audited Peabody Charter School's (the Charter School) (A California Non-Profit Public Benefit Corporation) compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2011-2012*, applicable to Charter School's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Charter School's management. Our responsibility is to express an opinion on the Charter School's compliance based on our audit.

We conducted our audit 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, 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 material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Charter 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 opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Not Applicable
Teacher Certification and Misassignments	3	Not Applicable
Kindergarten continuance	3	Not Applicable
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		
School districts	6	Not Applicable
County offices of education	3	Not Applicable

	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General requirements	8	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Not Applicable
School Accountability Report Card	3	Not Applicable
Public Hearing Requirement - Receipt of Funds	1	Not Applicable
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Not Applicable
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Yes
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Yes

We did not perform procedures specific to the Exclusion of Pupils - Pertussis Immunization Program because the Charter School does not have pupils in grades seven through twelve.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vannink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 7, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PEABODY CHARTER SCHOOL

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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PEABODY CHARTER SCHOOL

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PEABODY CHARTER SCHOOL

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PEABODY CHARTER SCHOOL

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no audit findings reported in the prior year's schedule of financial statement findings.