

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

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JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Ocean Charter School
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Ocean Charter School (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018, 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 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; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 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 Charter 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 Charter 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 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 respective financial position of the Charter School, as of June 30, 2018, and the changes in its net assets and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary 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. Such 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 accompanying supplementary 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 _____, 2018, 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 solely 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 effectiveness of the Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2018

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Current Assets

Cash and cash equivalent	\$ 387,522	
Restricted cash	22,807,028	
Accounts receivable	399,256	
Prepaid expenses	<u>40,198</u>	
Total Current Assets		\$ 23,634,004

Non-Current Assets

Deferred costs	2,090,862	
Fixed assets	28,430,030	
Less: accumulated depreciation	<u>(187,454)</u>	
Total Non-Current Assets		<u>30,333,438</u>

Total Assets \$ 53,967,442

LIABILITIES

Current Liabilities

Accounts payable	222,262	
Deferred revenue	24,029,957	
Current portion of long-term obligations	<u>150,000</u>	
Total Current Liabilities		\$ 24,402,219

Long-Term Obligations

Non-current portion of long-term obligations		<u>6,399,564</u>
Total Liabilities		<u>30,801,783</u>

NET ASSETS

Unrestricted	<u>23,165,659</u>	
Total Net Assets		<u>23,165,659</u>

Total Liabilities and Net Assets \$ 53,967,442

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

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

REVENUES	
Local Control Funding Formula	\$ 3,724,610
Federal revenue	129,198
State revenue	824,064
Proposition 1D	18,092,424
Local revenues	<u>848,555</u>
Total Revenue	<u>23,618,851</u>
 EXPENSES	
Program services	
Teacher salaries and benefits	3,184,380
Other student services	450,042
Educational programs	112,418
Student supplies	75,271
Student nutrition	44,077
Special education fee	332,682
Depreciation	7,562
Capital outlay	32,714
Proposition expenses	<u>1,205</u>
Subtotal	<u>4,240,351</u>
Management and general	
Clerical salaries and benefits	491,524
District supervisory fee	37,246
Occupancy	407,634
Insurance	36,312
Debt service interest	4,443
Operating expenses	<u>425,873</u>
Subtotal	<u>1,403,032</u>
Total Expenses	<u>5,643,383</u>
 INCREASE IN UNRESTRICTED NET ASSETS	 17,975,468
NET ASSETS, BEGINNING OF YEAR	<u>5,190,191</u>
NET ASSETS, END OF YEAR	<u><u>\$ 23,165,659</u></u>

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

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in unrestricted net assets	\$ 17,975,468
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation expense	7,562
Changes in operating assets and liabilities	
Decrease in accounts receivable	60,143
Decrease in prepaid expenditures	2,186,730
Increase in deferred cost	(407,062)
Decrease in accounts payable	(282,870)
Increase in deferred revenue	24,029,957
Net Cash Provided by Operating Activities	<u>43,569,928</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	(5,315,783)
Restricted cash received for construction	<u>(22,807,028)</u>
Net Cash Used in Investing Activities	<u>(28,122,811)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan Proceeds	2,777,790
Loan principal payments	<u>(18,500,000)</u>
Net Cash Used in Financing Activities	<u>(15,722,210)</u>

NET DECREASE IN CASH	(275,093)
CASH, BEGINNING OF YEAR	<u>662,615</u>
CASH, END OF YEAR	<u>\$ 387,522</u>

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u>\$ 4,443</u>
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The accompanying notes are an integral part of these financial statements.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - ORGANIZATION AND MISSION

The Ocean Charter School (the Charter School) is a non-profit public benefit corporation formed exclusively to manage, operate, guide, direct, promote and to educate within the meaning of IRS Code Section 501(c)(3). The Charter School petitioned through Los Angeles Unified School District (the District) for a charter and was approved by the State of California Department of Education on March 24, 2003, renewed in 2013 for a period of five years ending in 2017.

Charter School number authorized by the State: 0569

The Charter School has two locations. One campus located on 12606 Culver Blvd., Los Angeles, opened in 2004 and currently serves approximately 263 students in grades kindergarten through three. The second campus located on 7400 W Manchester Ave, Los Angeles, opened in 2012, and currently serves 523 students in grades four through eight. The Charter School is committed to achieving academic excellence through experiential learning, enhancing the growth of curiosity and imagination through the rigorous practice of an arts-integrated curriculum. This approach addresses the whole child, promoting the development of healthy, responsible, and creative human beings. Our graduates will have the vision, desire and skill to live meaningful lives, balance technology and humanity, and create a sustainable future.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 13 to the financial statements.

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 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 temporarily or permanently restricted net assets as of June 30, 2018. In addition, the Charter School is required to present a Statement of Cash Flows.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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". During 2017-2018, the Charter School did not receive any donor-restricted contributions.

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 2014 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 unrestricted cash on hand and in banks to be cash equivalents.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, 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.

Deferred Costs

During the 2016 fiscal year the Charter School received Deferred Costs proceeds that will be used to pay interest on bonds and for the acquisition of certain charter school education facilities for Ocean Charter School. As of June 30, 2018, total Deferred Costs had a balance of \$2,090,862.

Fixed Assets

It is the Charter School's policy to capitalize individual property and equipment purchases over \$1,000. 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 5 to 7 years. For the year ended June 30, 2018, depreciation expense was \$7,562.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 – CASH AND CASH EQUIVALENT

Cash at June 30, 2018, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 387,522</u>	<u>\$ 455,379</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2018, the Charter School had \$366,437 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

OCEAN CHARTER SCHOOL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – RESTRICTED CASH

Restricted cash and investments arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash and investments is held to satisfy current or long-term obligations. Restricted investments consist of money market funds which are carried at fair value in accordance with current accounting guidance. Restricted cash and investments at June 30, 2018, was comprised of the following:

Restricted cash at June 30, 2018, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Restricted Cash	<u>\$ 22,807,028</u>	<u>\$ 22,971,567</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2018, the Charter School had \$22,721,567 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

Local Control Funding Formula	\$ 139,187
Federal receivable	2,611
State receivable	137,874
Lottery	47,644
Local receivable	71,940
Total Accounts Receivable	<u>\$ 399,256</u>

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2018, consisted of the following:

Prepaid rent, insurance, and miscellaneous vendors	<u>\$ 40,198</u>
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OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018, consisted of the following:

Land	\$20,277,475
Improvement of sites	2,680
Building	132,420
Computer equipment	63,135
Furniture	7,251
Work in progress	<u>10,037,931</u>
Subtotal	30,520,892
Less: accumulated depreciation	<u>(187,454)</u>
Total Fixed Assets	<u>\$ 30,333,438</u>

During the year ended June 30, 2018, \$7,562 was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

Salaries and benefits	\$ 47,451
Vendor payables	163,879
Due to grantor	<u>10,932</u>
Total Accounts Payable	<u>\$ 222,262</u>

NOTE 9 - DEFERRED REVENUE

Deferred revenue at June 30, 2018, consisted of the following:

School Facility Fund	\$ 8,928,936
Augmentation grant	<u>15,101,021</u>
Total Deferred Revenue	<u>\$ 24,029,957</u>

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS

Proposition 1D, passed by California voters in November 2002, established the Charter School Facility Program and provided to charter schools that provide site-based instruction for access State of California facility funding directly for the construction of new charter schools or additions to existing charter schools. Per Proposition 1D one-half of the approved project costs paid under the award are reimbursed in the form of a State grant and one-half of the approved project costs paid under the award are required to be remitted back to the State of California in the form of lease payments over a period not to exceed 30 years.

During the fiscal year ended June 30, 2012, the Charter School was awarded \$7,543,549 in Charter School Facilities Program funding established by Proposition 1D. During the fiscal year ended June 30, 2018, the Charter School was awarded an additional \$28,521,085 Facilities Program funding established by Proposition 1D. The balance of \$6,399,564 in long-term obligations represents one-half of the costs incurred for the Charter School's approved Proposition 1D project. The site improvements made under the guidelines of the Proposition 1D award are being accounted for as Land and Work in Progress. Current provisions allow the Charter School to be on the title "in trust" through the State of California and the District, "in trust" being in name only with no property rights attached.

At June 30, 2018, the project is incomplete. A payment schedule will not be provided until the project is complete.

California School Finance Authority Charter School Revenue Bonds

During the 2015-2016 the Charter School received proceeds from bonds issued under the California School Finance Authority Charter School Revenue Bonds Series 2016A. The proceeds were for the education facilities under Ocean Charter School. The Charter School recorded this as a loan in the amount of \$18,500,000 with a maturity date of January 2019. The loan is scheduled to be paid over a three-year period. It is anticipated that this loan will be repaid from future proceeds of a State grant for facilities. The bonds were repaid from the proceeds of the Proposition 1D grant. As of June 30, 2018, no remaining balance was noted.

Revolving Line of Credit

On 2017-18, the Charter was acquired a line of credit in the amount of \$600,000 from Hanmi Bank with the interest rate of 5.75 percent. As of June 30, 2018, the Charter has an outstanding balance of \$150,000.

OCEAN CHARTER SCHOOL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - OPERATING LEASE

The Charter School entered into a Prop 39 Co-Location Use Agreement with the District for one year where the Charter School occupies one of the school sites of the District for its 4-8 campus location. The location is Westchester High School at 7400 W Manchester Ave, Los Angeles CA 90045. The lease expense for 2017-2018 was \$151,550.

During 2015-16, Ocean Charter School renewed the Non-Residential Lease Agreement with Marina Free Methodist Church d/b/a Marina Christian Fellowship on May 6, 2016, where the Charter would occupy the location for its secondary school campus at 12606 West Culver Blvd., Los Angeles, CA 90066. Term of the lease is for 48 calendar months commencing on the Commencement Date noted above. The lease expense for 2017-2018 was \$254,304.

Future payments are as follows:

Year Ending June 30,	Facility Lease Payments
2019	\$ 269,568
2020	285,732
Total	<u>\$ 555,300</u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic and classified employees are members of the California State Teachers' Retirement System (CalSTRS) or are covered by a 403(b) Tax Deferred Annuity Plan (TDA).

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

The details of each plan are as follows:

OCEAN CHARTER SCHOOL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2016, total actuarial value of assets are \$170 billion, the actuarial obligation is \$267 billion, contributions from all employers totaled \$3.3 billion, and the plan is 63.7 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the Charter School's total contributions were \$261,370.

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 \$125,155 (9.328 percent of the Charter School's salaries subject to CalSTRS). 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.

403(b) Tax Deferred Annuity Plan

The Charter School also contributes to a classified employee 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation insurance and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units, and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018, the Charter School made payments of \$67,101 to CharterSAFE for services received. At June 30, 2018, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 14 - 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.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2018, 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

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Ocean Charter School (Charter Number 0569) was granted on August 21, 2002, by the Los Angeles Unified School District. Charter School operates one school at two locations. The Mar Vista campus serves students in grades kindergarten through three and the Westchester campus serves students in grades four through eight.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Joshua Dome	Chair	2019
Jason Haas	Vice Chair	2021
Sue Ingles	Treasurer	2020
Laura Stoland	Secretary	2021
Dominique DjeDje	Member	2021
Edward Eadon	Member	2021
Mark Galanty	Member	2020
November McIlhargey	Member	2019
Zach James	Member	2021
Dan Wierzba	Member	2021
Melodie Metzger	Member	2020

ADMINISTRATION

Stephanie Edwards	Executive Director
Kristy Mack-Fett	Director of Westchester Campus

See accompanying note to supplementary information.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	243.21	244.69
Fourth through sixth	147.79	148.27
Seventh and eighth	88.01	88.53
Total Regular ADA	<u>479.01</u>	<u>481.49</u>
Classroom based ADA		
Transitional kindergarten through third	240.04	241.48
Fourth through sixth	146.67	147.38
Seventh and eighth	87.50	88.08
Total Classroom Based ADA	<u>474.21</u>	<u>476.94</u>

The Charter School operated a short-term non-classroom based Independent Study program.

See accompanying note to supplementary information.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	53,650	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,120	180	N/A	Complied
Grade 2		52,120	180	N/A	Complied
Grade 3		52,120	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,600	180	N/A	Complied
Grade 5		56,600	180	N/A	Complied
Grade 6		56,600	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		56,600	180	N/A	Complied
Grade 8		56,600	180	N/A	Complied

See accompanying note to supplementary information.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Balance, June 30, 2018, Unaudited Actuals	\$ 23,166,712
Change in:	
Accounts receivable	10,156
Accounts payable	(11,209)
Balance, June 30, 2018, Audited Financial Statements	<u>\$ 23,165,659</u>

See accompanying note to supplementary information.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the Charter School's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Charter School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students.

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 47612 through 47612.5, if applicable.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S 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***

Governing Board
Ocean Charter School
(A California Nonprofit Public Benefit Corporation)
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 Ocean Charter School (the Charter School) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 Charter 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 the 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 Charter 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 Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Ocean Charter School
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Ocean Charter School's (the Charter School) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Charter School's state government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's state programs based on our audit of the types of compliance requirements referred to above. 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards 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 the 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.

Unmodified Opinion on Each of the Other Programs

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, 2018.

Other Matters

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 Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

The Charter School does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
_____, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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