

**OCEAN CHARTER SCHOOL**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2016**

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

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**JUNE 30, 2016**

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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, 2016, and the related statements of activities and changes in net assets, 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 opinions 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 *2015-2016 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 opinions.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Ocean Charter School, as of June 30, 2016, and the respective changes in financial position and cash flows 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 opinions on the financial statements that collectively comprise the Ocean Charter School's basic financial statements. 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 basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 December 13, 2016, on our consideration of the Ocean Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ocean Charter School's internal control over financial reporting and compliance.

*Varrinck, Tim, Day & Co., LLP*

Rancho Cucamonga, California

December 13, 2016

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

**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2016**

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**ASSETS**

Current Assets

Cash	\$ 511,864	
Accounts receivable	473,018	
Prepaid expenses	71,550	
Total Current Assets		\$ 1,056,432

Non-Current Assets

Deferred costs	4,957,153	
Fixed assets	21,814,928	
Less: accumulated depreciation	171,411	
Total Non-Current Assets		<u>26,600,670</u>

Total Assets \$ 27,657,102

**LIABILITIES**

Current Liabilities

Accounts payable	249,986	
Deferred revenue	18,900	
Total Current Liabilities		\$ 268,886

Long-Term Obligations

Non-current portion of long-term obligations		<u>22,262,324</u>
Total Liabilities		<u>22,531,210</u>

**NET ASSETS**

Unrestricted	<u>5,125,892</u>	
Total Net Assets		<u>5,125,892</u>

Total Liabilities and Net Assets \$ 27,657,102

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

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

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**REVENUES**

Local Control Funding Formula	\$ 3,166,619
Federal revenue	82,716
State revenue	873,513
Proposition 1D	3,675,961
Local revenues	<u>763,915</u>
Total Revenue	<u>8,562,724</u>

**EXPENSES**

Program services	
Teacher salaries and benefits	2,635,637
Other student services	401,416
Educational programs	140,752
Student supplies	58,626
Student nutrition	54,560
Special education fee	226,487
Depreciation	8,396
Capital outlay	52,765
Proposition expenses	<u>42,612</u>
Subtotal	<u>3,621,251</u>
Management and general	
Clerical salaries and benefits	479,030
District supervisory fee	31,662
Occupancy	360,265
Insurance	34,665
Operating expenses	<u>508,439</u>
Subtotal	<u>1,414,061</u>
Total Expenses	<u>5,035,312</u>

<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	3,527,412
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,598,480</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 5,125,892</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, 2016**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in unrestricted net assets	\$ 3,527,412
Adjustments to reconcile increase in net assets to net cash used by operating activities	
Depreciation expense	8,396
Changes in operating assets and liabilities	
Increase in accounts receivable	(62,455)
Increase in prepaid expenditures	(4,952,617)
Increase in accounts payable	98,390
Decrease in deferred revenue	(7,356,921)
Net Cash Used in Operating Activities	<u>(8,737,795)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Capital expenditures	(21,493,707)
Restricted cash released for construction, net	7,334,326
Net Cash Used in Investing Activities	<u>(14,159,381)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Loan Proceeds	22,175,960
Net Cash Provided by Financing Activities	<u>22,175,960</u>

<b>NET DECREASE IN CASH</b>	(721,216)
<b>CASH, BEGINNING OF YEAR</b>	1,233,080
<b>CASH, END OF YEAR</b>	<u>\$ 511,864</u>

**Supplemental cash flow disclosure:**

Cash paid during the period for interest	<u>\$ -</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, 2016**

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***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 257 students in grades kindergarten through three. The second campus located on 7400 W Manchester Ave, Los Angeles, opened in 2012, and currently serves 248 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 12 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, 2016. 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, 2016**

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**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".

**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 2012 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.

**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, 2016, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**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 together with other available funds that will be applied to fund a loan to Ocean Charter School to finance the acquisition of certain charter school education facilities for Ocean Charter School. As of June 30, 2016, total Deferred Costs had a balance of \$4,957,153.

**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, 2016, depreciation expense was \$8,396.

**Deferred Revenue**

The funding received for Proposition 1D is recorded as deferred when collected and recognized as revenue when spent.

**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**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 3 - CASH**

Cash at June 30, 2016, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	\$ 511,864	\$ 584,654

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, 2016, the Charter School had \$52,277 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016, consisted of the following:

Local Control Funding Formula	\$ 291,000
State receivable	90,171
Local receivable	91,847
Total Accounts Receivable	<u>\$ 473,018</u>

**NOTE 5 - PREPAID EXPENSES**

Prepaid expenses at June 30, 2016, consisted of the following:

Prepaid rent, insurance, and miscellaneous vendors	<u>\$ 71,550</u>
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**OCEAN CHARTER SCHOOL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 6 - FIXED ASSETS**

Fixed assets at June 30, 2016, consisted of the following:

Land	\$ 20,254,150
Improvement of sites	2,680
Building	132,420
Computer equipment	63,135
Furniture	7,251
Work in progress	<u>1,355,292</u>
Subtotal	21,814,928
Less: accumulated depreciation	<u>(171,411)</u>
Total Fixed Assets	<u><u>\$ 21,643,517</u></u>

During the year ended June 30, 2016, \$8,396 was charged to depreciation expense.

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2016, consisted of the following:

Salaries and benefits	\$ 276
Vendor payables	234,531
Employee 403(b) contributions	4,611
Due to grantor	<u>10,568</u>
Total Accounts Payable	<u><u>\$ 249,986</u></u>

**NOTE 8 - DEFERRED REVENUE**

Deferred revenue at June 30, 2016, consisted of the following:

Proposition 1D - Ocean Charter School	<u><u>\$ 18,900</u></u>
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**OCEAN CHARTER SCHOOL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 9 - 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 (recorded as earned revenue and proposition expense on the Statement of Activities and Changes in Net Assets) 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. The balance of \$2,777,848 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 capital leases because the term of the lease exceeds 75 percent of the economic life of the leased property. 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, 2016, 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. As of June 30, 2016, the remaining balance was \$18,500,000.

Future payments are as follows:

Repayment Year	Principal Payments	Interest	Total Payments
2017	\$ -	\$ 878,750	\$ 878,750
2018	-	1,110,000	1,110,000
2019	18,500,000	832,500	19,332,500
Total	<u>\$ 18,500,000</u>	<u>\$ 2,821,250</u>	<u>\$ 21,321,250</u>

**OCEAN CHARTER SCHOOL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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***NOTE 10 - 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 2015-2016 was \$129,840.

During 2013-2014, the Charter School renewed a Non-Residential Lease Agreement with Marina Free Methodist Church dba Marina Christian Fellowship on July 1, 2013, where the Charter School would occupy the location for its K-3 campus at 12606 West Culver Blvd., Los Angeles, California 90066. Term of the lease is for 36 calendar months commencing on July 1, 2013, and ending June 30, 2016. (The Charter School has occupied this location prior to 2013.) The lease expense for 2015-2016 was \$230,664.

***NOTE 11 - 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 this multi-employer defined benefit pension plan is 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:

**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, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

**OCEAN CHARTER SCHOOL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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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, 2015, 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.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
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	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**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, 2016, are presented above and the Charter School's total contributions were \$150,807.

**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 \$89,939 (7.12589 percent of the Charter School's 2013-2014 creditable compensation 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.

***NOTE 12 - 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 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016, the Charter School made payments of \$59,610 to CharterSAFE for services received. At June 30, 2016, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.



**OCEAN CHARTER SCHOOL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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***NOTE 13 - 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 has no outstanding claims or litigation.

***NOTE 14 - 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 13, 2016, 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.

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*SUPPLEMENTARY INFORMATION*

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

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**  
**JUNE 30, 2016**

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**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**

<b><u>MEMBER</u></b>	<b><u>OFFICE</u></b>	<b><u>TERM EXPIRES</u></b>
Joshua Dome	Chair	2019
Jason Haas	Vice Chair	2018
Sue Ingles	Treasurer	2017
Lori Andrade	Secretary	2018
Edward Eadon	Member	2018
Mark Galanty	Member	2017
Michael Krutz	Member	2019
November McIlhargey	Member	2019

**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 APPORTIONMENT DAYS OF ATTENDANCE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	219.12	220.44
Fourth through sixth	145.09	145.98
Seventh and eighth	70.84	70.86
Total Regular ADA	435.05	437.28
Classroom based ADA		
Transitional kindergarten through third	217.62	218.80
Fourth through sixth	144.47	145.22
Seventh and eighth	70.52	70.61
Total Classroom Based ADA	432.61	434.63

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, 2016**

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Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,640	179	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,640	179	N/A	Complied
Grade 2		54,640	179	N/A	Complied
Grade 3		54,640	179	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		59,860	179	N/A	Complied
Grade 5		59,860	179	N/A	Complied
Grade 6		59,860	179	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,860	179	N/A	Complied
Grade 8		59,860	179	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, 2016**

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 4,156,504
Change in:	
Accounts payable	(15,695)
Accounts receivable	607
Deferred revenue	984,476
Balance, June 30, 2016,	
Audited Financial Statements	<u>\$ 5,125,892</u>

See accompanying note to supplementary information.

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

**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

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***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 Apportionment Days of 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 46200 through 46206, if applicable.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

**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 Unaudited Actual Financial Report to the audited financial statements.

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***INDEPENDENT AUDITOR'S REPORTS***

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**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) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Ocean Charter School's basic financial statements, and have issued our report thereon dated December 13, 2016.

**Internal Control Over Financial Reporting**

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

*Vannink, Tim, Day & Co., LLP*

Rancho Cucamonga, California  
December 13, 2016



## 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) (A California Nonprofit Public Benefit Corporation) compliance with the types of compliance requirements as identified in the *2015-2016 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 Ocean Charter School's State government programs as noted below for the year ended June 30, 2016.

### 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 *2015-2016 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 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, 2016.

**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
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
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
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After 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
Immunizations	No, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
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.

The Charter School was not listed on the immunization assessment reports; 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.

*Vannink, Tim, Day & Co., LLP*

Rancho Cucamonga, California  
December 13, 2016

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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

**SUMMARY OF AUDITOR'S RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**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 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, 2016**

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None reported.



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

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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