

Financial Statements  
June 30, 2020

**Ocean Charter School**  
**Charter No. 0569**

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## Independent Auditor's Report

Governing Board  
Ocean Charter School  
Los Angeles, California

### Report on the Financial Statements

We have audited the accompanying financial statements of Ocean Charter School (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, 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. 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 Organization'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 Organization'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 Organization, as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**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 other supplementary information as listed in the table of contents 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 other 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 \_\_\_\_\_, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Los Angeles, California  
\_\_\_\_\_, 2021

Ocean Charter School  
Statement of Financial Position  
June 30, 2020

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Assets		
Current assets		
Cash		\$ 4,415,798
Accounts receivable		684,334
Prepaid expenses		<u>27,732</u>
Total current assets		<u>5,127,864</u>
Non-current assets		
Property and equipment, net		<u>72,914,379</u>
Total assets		<u><u>\$ 78,042,243</u></u>
Liabilities		
Current liabilities		
Accounts payable		\$ 2,403,910
Accrued liabilities		37,047
Refundable advance - Augmentation Grant		1,182,990
Refundable advance - Paycheck Protection Program (PPP)		<u>656,092</u>
Total current liabilities		<u>4,280,039</u>
Long-term liabilities		
Proposition 1D		10,300,000
Line of credit		<u>1,300,000</u>
Total long-term liabilities		<u>11,600,000</u>
Total liabilities		<u>15,880,039</u>
Net Assets		
Without donor restrictions		<u>62,162,204</u>
Total liabilities and net assets		<u><u>\$ 78,042,243</u></u>

Ocean Charter School  
Statement of Activities  
Year Ended June 30, 2020

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	Without donor Restrictions
Support and revenues	
Local Control Funding Formula	\$ 4,337,599
Federal revenue	161,625
Other state revenue	382,851
Augmentation grant	20,122,971
Local revenues	1,129,364
Total support and revenues	26,134,410
Expenses	
Program services	4,926,424
Management and general	924,022
Fundraising and development	27,520
Total expenses	5,877,966
Change in Net Assets	20,256,444
Net Assets, Beginning of Year	41,905,760
Net Assets, End of Year	\$ 62,162,204

Ocean Charter School  
Statement of Functional Expenses  
Year Ended June 30, 2020

	Program Services	Management and General	Fundraising and Development	Total Expenses
Salaries	\$ 2,403,085	\$ 361,549	\$ -	\$ 2,764,634
Employee benefits	706,732	58,999	-	765,731
Payroll taxes	320,659	24,982	-	345,641
Fees for services	513,318	241,168	-	754,486
Advertising and promotions	-	1,173	-	1,173
Office expenses	35,474	82,576	-	118,050
Occupancy	451,841	67,981	-	519,822
Travel	3,098	-	-	3,098
Interest	-	1,093	-	1,093
Depreciation	6,645	-	-	6,645
Insurance	-	47,659	-	47,659
Other expenses	350,623	36,842	27,520	414,985
Instructional materials	59,793	-	-	59,793
Nutrition	31,780	-	-	31,780
District oversight fees	43,376	-	-	43,376
	<u>\$ 4,926,424</u>	<u>\$ 924,022</u>	<u>\$ 27,520</u>	<u>\$ 5,877,966</u>
Total functional expenses	<u>\$ 4,926,424</u>	<u>\$ 924,022</u>	<u>\$ 27,520</u>	<u>\$ 5,877,966</u>

Ocean Charter School  
Statement of Cash Flows  
Year Ended June 30, 2020

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Cash Flows from Operating Activities	
Change in net assets	\$ 20,256,444
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	6,645
Changes in operating assets and liabilities	
Accounts receivable	(96,066)
Deferred cost	2,090,862
Prepaid expenses	15,769
Accounts payable	(2,253,205)
Accrued liabilities	8,291
Refundable advance - Prop 1D	(12,921,284)
Refundable advance - PPP	656,092
Line of Credit	<u>1,300,000</u>
Net Cash from Operating Activities	<u>9,063,548</u>
Cash Flows used for Investing Activities	
Purchases of property and equipment	<u>(22,217,066)</u>
Net Change in Cash	(13,153,518)
Cash, Beginning of Year	<u>17,569,316</u>
Cash, End of Year	<u><u>\$ 4,415,798</u></u>
Supplemental Cash Flow Disclosure	
Cash paid during the period in interest	<u><u>\$ 1,093</u></u>



**Note 1 - Principal Activity and Significant Accounting Policies****Organization**

Ocean Charter School (the Organization) was incorporated in the State of California in Los Angeles as a nonprofit public benefit corporation that is organized under the Nonprofit Public Benefit Corporation Law exclusively for charitable and educational purposes within the meaning of 501(c)(3) of the Internal Revenue Code of 1954. The Charter School was approved by the State of California Department of Education on March 24, 2003. The Charter School opened in 2004 and currently serves approximately 575 students in grades kindergarten through eight. On 2018, the Charter School was renewed by Los Angeles Unified School District (the District) for five years ending 2023.

Charter school number authorized by the State: 0569

The Organization provides services such as education, encompassing instruction, student and staff support activities, facilities maintenance and operations, and food services. Supporting services include management and general services which are the Organization's overall related administrative activities.

**Basis of Accounting**

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions.

*Net Assets with Donor Restrictions* – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Cash and Cash Equivalents**

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash.

**Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. Substantially all outstanding accounts receivable as of June 30, 2020, are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

**Property and Equipment**

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2020.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a \$655,000 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of \$655,000 in loan and \$1,092 in accrued interest.

### **Functional Allocation of Expenses**

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. The expenses that are allocated include occupancy, depreciation, as well as salaries and wages, benefits, payroll taxes, professional services, and other, which are allocated on the basis of estimates of time and effort.

### **Income Taxes**

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

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

**Financial Instruments and Credit Risk**

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

**Recent Accounting Pronouncements**

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. 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. 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.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

**Change in Accounting Principle**

The Organization has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, *Revenue from Contract with Customers*, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

## Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 4,415,798
Accounts receivable	<u>684,334</u>
Total	<u><u>\$ 5,100,132</u></u>

A portion of the Organization's cash consists of Augmentation Grant funds in the amount of \$3,307,741 which are restricted for specific purposes and, therefore, are not available for general expenditure. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

**Note 3 - Property and Equipment**

Property and equipment consist of the following at June 30, 2020:

Land	\$ 20,277,475
Building improvements	2,680
Building	132,420
Computer and equipment	73,619
Work in progress	<u>52,629,486</u>
	73,115,680
Less accumulated depreciation	<u>(201,301)</u>
Total	<u><u>\$ 72,914,379</u></u>

**Note 4 - 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 \$10,300,000 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.

Future maturities of long-term obligation are as follows:

Year Ending June 30,	Principal
2022	\$ 296,782
2023	267,920
2024	273,324
2025	278,838
2026	284,463
Thereafter	<u>8,898,673</u>
Total	<u><u>\$ 10,300,000</u></u>

**Note 5 - Line of Credit**

During 2018-19, the Organization acquired a line of credit in the amount of \$1,300,000 from Hanmi Bank with the interest rate of 6.25 percent. Accrued interest and principal are due at maturity on July 7, 2020. The agreement requires the Organization to comply with certain financial and non-financial covenants.

**Note 6 - Operating Lease**

The Organization entered into a Prop 39 Co-Location Use Agreement with the District for one year where the Organization 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 the fiscal year ending June 30, 2020, was \$194,071, which is included in occupancy in the statement of functional expenses.

During 2015-16, Organization renewed the Non-Residential Lease Agreement with Marina Free Methodist Church d/b/a Marina Christian Fellowship on May 6, 2016, where the Organization 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, July 1, 2018. The lease expense for the fiscal year ending June 30, 2020, was \$285,732.

**Note 7 - Employee Retirement Systems**

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

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 Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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.

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, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	10.205%
Required employer contribution rate	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

### Contributions

Required member, Organization, 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, 2020, are presented above and the Organization's total contributions were \$314,587.



**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of \$185,838 (10.328 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of \$1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of \$62,336 in these financial statements.

**Note 8 - Contingencies**

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

**Note 9 - Subsequent Events**

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

**Proposition 39 Overallocation**

On July 16, 2020, the Organization entered into an agreement with the District to fully reimburse the District for Proposition 39 over-allocated space during the 2016-17, 2017-18, and 2018-19 school years. The Organization will be paying the District a collective total of \$1,265,157.63 ("Payment"), as follows: \$415,134.72 from the 206-17 school year, \$364,575.75 from the 2017-18 school year, and \$485,447.16 from the 2018-19 school year.

The Organization has authorized the District to deduct the Payment from the Organization's revenue account, as follows:

- For the 2020-21 and 2021-22 fiscal years: \$79,999.92 (\$39,999.96 per year), in twenty-four (24) monthly installments of \$3,333.33 each from the July 2020 through June 2022; and
- For the 2022-23 through 2029-30 fiscal years: \$1,185,157.71 (\$174,144.71 per year), in ninety-six (96) equal monthly installments of \$12,345.39 each from July 2022 through June 2030.

**Line of Credit**

On November 3, 2020, the Organization changed the terms of the agreement on the line of credit with a new maturity date of October 3, 2021, and interest rate of 4.25 percent.

Supplementary Information  
June 30, 2020

**Ocean Charter School**

## ORGANIZATION

Ocean Charter School (the Organization) (Charter Number 0569) was granted on August 21, 2002, by Los Angeles Unified School District. The Organization 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

MEMBER	OFFICE	TERM EXPIRES
Joshua Dome	Chair	2022
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
Zach James	Member	2021
November McIlhargey	Member	2022
Tammy Stanton	Member	2023
Andrew Tunnicliffe	Member - Parent Collective Rep.	2020
Dan Wierzba	Member	2021

## ADMINISTRATION

Stephanie Edwards	Executive Director
Kristy Mack-Fett	Executive Director

Ocean Charter School  
 Schedule of Average Daily Attendance  
 Year Ended June 30, 2020

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	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	258.75	258.75
Fourth through sixth	146.02	146.02
Seventh and eighth	<u>96.56</u>	<u>96.56</u>
Total Regular ADA	<u><u>501.33</u></u>	<u><u>501.33</u></u>
Classroom Based ADA		
Transitional kindergarten through third	255.51	255.51
Fourth through sixth	144.20	144.20
Seventh and eighth	<u>95.91</u>	<u>95.91</u>
Total Classroom Based ADA	<u><u>495.62</u></u>	<u><u>495.62</u></u>

Ocean Charter School  
 Schedule of Instructional Time  
 Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	53,525	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,040	180	N/A	Complied
Grade 2		52,040	180	N/A	Complied
Grade 3		52,040	180	N/A	Complied
Grades 4 - 8	54,000				
Grade 4		56,500	180	N/A	Complied
Grade 5		56,500	180	N/A	Complied
Grade 6		56,500	180	N/A	Complied
Grade 7		56,500	180	N/A	Complied
Grade 8		56,500	180	N/A	Complied

Ocean Charter School  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
Year Ended June 30, 2020

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2020.

**Note 1 - Purpose of Supplementary Schedules****Local Education Agency Organization Structure**

This schedule provides information about the Organization'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 Organization. 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 at the Organization.

**Schedule of Instructional Time**

This schedule presents information on the amount of instructional time offered by the Organization and whether the Organization complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 49 days due to the pandemic. As a result, the Organization received credit for these days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

**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  
June 30, 2020

**Ocean Charter School**



**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  
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 Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated \_\_\_\_\_, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 Organization'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 financial statements. 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California  
\_\_\_\_\_, 2021

**Independent Auditor’s Report on State Compliance**

Governing Board  
Ocean Charter School  
Los Angeles, California

**Report on State Compliance**

We have audited Ocean Charter School’s (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

**Management's Responsibility**

Management is responsible for compliance with the state laws and regulations as identified in the table below.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the Organization’s compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the Organization’s compliance.

**Compliance Requirements Tested**

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

	<u>Procedures Performed</u>
<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
Ratio 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
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
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
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional 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.

We did not perform California Clean Energy Jobs Act procedures because the Organization did not receive funding for this program.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

We did not perform procedures for the Independent Study - Course Based program because the ADA was under the level that requires testing

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the ADA was under the level that requires testing

***Unmodified Opinion***

In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California  
\_\_\_\_\_, 2021

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**STATE COMPLIANCE**

Type of auditor's report issued on compliance for programs:	Unmodified
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None reported.

None reported.



There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.