



Financial Statements
June 30, 2021

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 comprise the statement of financial position as of June 30, 2021, 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, 2021, 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.

Correction of Error

As noted in Note 10 to the financial statements, certain errors resulting in an overstatement of amounts previously reported for property and equipment as of June 30, 2020, were discovered by management of the Organization during the current year. Accordingly, amounts reported for property and equipment have been restated and an adjustment has been made to net assets as of July 1, 2020, to correct the error. Our opinion is not modified with respect to that matter.

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 on pages 17-20 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information on pages 17-20 is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2022, 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.



Rancho Cucamonga, California
February 17, 2022

Ocean Charter School
Statement of Financial Position
June 30, 2021

Assets	
Current assets	
Cash	\$ 301,701
Accounts receivable	1,165,826
Prepaid expenses	<u>22,183</u>
Total current assets	<u>1,489,710</u>
Non-current assets	
Restricted cash	1,926,270
Property and equipment, net	<u>56,558,656</u>
Total non-current assets	<u>58,484,926</u>
Total assets	<u><u>\$ 59,974,636</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 188,968
Accrued liabilities	114,050
Refundable advance	294,735
Refundable advance - Augmentation Grant	1,702,985
Current portion of Proposition 1D	296,782
Current portion of note payable	<u>40,000</u>
Total current liabilities	<u>2,637,520</u>
Long-term liabilities	
Proposition 1D, less current portion	10,003,218
Note payable, less current portion	1,185,158
Total long-term liabilities	<u>11,188,376</u>
Total liabilities	<u>13,825,896</u>
Net Assets	
Without donor restrictions	45,994,033
Without donor restrictions - designated	<u>154,707</u>
Total net assets	<u>46,148,740</u>
Total liabilities and net assets	<u><u>\$ 59,974,636</u></u>

Ocean Charter School
Statement of Activities
Year Ended June 30, 2021

Support and revenues	
Local Control Funding Formula	\$ 4,592,504
Federal revenue	318,941
Other state revenue	368,017
PPP loan forgiveness revenue	656,092
Augmentation grant	4,772,799
Local revenues	<u>446,093</u>
Total support and revenues	<u>11,154,446</u>
Expenses	
Program services	5,261,639
Management and general	<u>1,128,934</u>
Total expenses	<u>6,390,573</u>
Change in Net Assets	<u>4,763,873</u>
Net Assets, Beginning of Year	62,162,204
Prior Period Adjustment (Note 10)	<u>(20,777,337)</u>
Beginning Balance, as Restated	<u>41,384,867</u>
Net Assets, End of Year	<u><u>\$ 46,148,740</u></u>

Ocean Charter School
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Management and General	Total Expenses
Salaries	\$ 2,143,793	\$ 305,360	\$ 2,449,153
Employee benefits	639,756	60,423	700,179
Payroll taxes	251,871	21,046	272,917
Fees for services	87,202	230,050	317,252
Advertising and promotions	-	885	885
Office expenses	-	4,085	4,085
Information technology	-	34,654	34,654
Occupancy	1,160,318	165,274	1,325,592
Travel	2,660	-	2,660
Interest	-	28,556	28,556
Depreciation	354,317	-	354,317
Insurance	-	119,042	119,042
Other expenses	9,383	113,634	123,017
Capital outlay	197,017	-	197,017
Special education	332,926	-	332,926
Instructional materials	76,914	-	76,914
Nutrition	5,482	-	5,482
District oversight fees	-	45,925	45,925
	<u>\$ 5,261,639</u>	<u>\$ 1,128,934</u>	<u>\$ 6,390,573</u>

Ocean Charter School
Statement of Cash Flows
Year Ended June 30, 2021

Operating Activities	
Change in net assets	\$ 4,763,873
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Depreciation expense	354,317
Loss on disposal of asset	595
PPP loan forgiveness	(656,092)
Changes in operating assets and liabilities	
Accounts receivable	(481,492)
Prepaid expenses	5,549
Accounts payable	(2,214,942)
Accrued liabilities	77,003
Refundable advance	294,735
Refundable advance - Augmentation Grant	519,995
Net Cash from (used for) Operating Activities	<u>2,663,541</u>
Investing Activities	
Purchases of property and equipment	<u>(4,776,526)</u>
Financing Activities	
Proceeds from issuance of notes	1,265,158
Principal payments on notes	(40,000)
Net borrowings (repayments) under line of credit	<u>(1,300,000)</u>
Net Cash from (used for) Financing Activities	<u>(74,842)</u>
Net Change in Cash	(2,187,827)
Cash and Restricted Cash, Beginning of Year	<u>4,415,798</u>
Cash and Restricted Cash, End of Year	<u>\$ 2,227,971</u>
Cash and cash equivalents	301,701
Cash restricted to capital projects	<u>1,926,270</u>
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 2,227,971</u>
Supplemental Cash Flow Disclosure	
Cash paid during the year in interest	<u>\$ 28,556</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. In 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. The Governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve.

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 did not have net assets with donor restrictions for the year ended June 30, 2021.

Restricted Cash

Restricted cash in the amount of \$1,926,270 represents the remaining balance of funds received which are limited in use for the payment of costs of constructing and operating new facilities resulting from funding capital grants.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2021 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 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 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, 2021.

Revenue and Revenue Recognition

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.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. For the year ended June 30, 2021, the Organization received an advance payment of \$1,950,289 recognized in the statement of financial position as a refundable advances.

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 PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization has elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for-Profit – Revenue Recognition*. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$656,092 as PPP loan forgiveness revenue for the year ended June 30, 2021.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities such as management and general activities and fundraising and development 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, 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. 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, 2023. Management is evaluating the impact of the adoption of this standard.

In September 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities Contributed Nonfinancial Assets*, which requires a nonprofit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. 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.

Change in Accounting Principle

As of July 1, 2020, the Organization adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Organization has adopted this ASU as of July 1, 2020. Management has determined that the adoption of this standard did not have a significant impact on the Organization’s financial statements.

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		\$	301,701
Accounts receivable			<u>1,165,826</u>
 Total			 <u><u>\$ 1,467,527</u></u>

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, 2021:

Building improvements		\$	56,902,422
Building			3,478
Computer and equipment			<u>72,918</u>
			56,978,818
 Less accumulated depreciation			 <u>(420,162)</u>
 Total			 <u><u>\$ 56,558,656</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 site improvements made under the guidelines of the Proposition 1D award are being accounted for as building improvements. As of June 30, 2021, the balance was \$10,300,000.

Future minimum payments are as follows:

Year Ending June 30,	Principal
2022	\$ -
2023	296,782
2024	267,920
2025	273,324
2026	278,838
Thereafter	9,183,136
Total	<u>\$ 10,300,000</u>

Note 5 - Note payable

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 \$1,265,158, as follows: \$415,135 from the 2016-17 school year, \$364,576 from the 2017-18 school year, and \$485,447 from the 2018-19 school year. The Organization has authorized the District to deduct the payment from the Organization's revenue account.

Future minimum payments are as follows:

Year Ending June 30,	Principal
2022	\$ 40,000
2023	148,145
2024	148,145
2025	148,145
2026	148,145
Thereafter	592,578
Total	<u>\$ 1,225,158</u>

Note 6 - Line of Credit

During 2021, the Organization changed the terms of the agreement on the line of credit in the amount of \$1,300,000 from Hanmi Bank with the interest rate of 4.25 percent. The agreement requires the Organization to comply with certain financial and non-financial covenants. No funds were drawn as of June 30, 2021.

Note 7 - Net Assets

Net assets consist of the following at June 30, 2021:

Net assets without donor restrictions	
Designated for Capital campaign	\$ 154,707
Undesignated	<u>45,994,033</u>
Total net assets without donor restrictions	<u><u>\$ 46,148,740</u></u>

Note 8 - 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).

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, 2019, 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, 2021, 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	16.15%	16.15%
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, 2021, are presented above and the Organization's total contributions were \$270,463.

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 \$189,717 (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.

Note 9 - Contingencies, Risks, and Uncertainties

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.

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.

Note 10 - Restatement

During 2021, the Organization identified a misstatement with the June 30, 2020 financial statements related to property and equipment which were overstated. The Organization had previously overstated property and equipment. The Organization restated its previously issued financial statements to properly reflect the net asset balance as of June 30, 2020.

The following is a summary of the effects of the restatement in the Organization's June 30, 2020, Statement of Financial Position:

Beginning Balance Net assets, July 1, 2020	\$ 62,162,204
Overstatement of property and equipment	<u>(20,777,337)</u>
Beginning Balance Net assets, July 1, 2020, As Restated	<u><u>\$ 41,384,867</u></u>

Note 11 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through February 17, 2022, 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.

Assembly Bill 130 approved on July 9, 2021 extends the terms of all charter schools whose terms expire on or between January 1, 2022 and June 30, 2025, inclusive, by two years. No action is required of charter authorizers or charter schools for this extension.



Supplementary Information
June 30, 2021

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 with grades TK through eight.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Laura Stoland	Chair	June 30, 2024
Edward Eadon	Vice Chair	June 30, 2024
Sue Ingles	Secretary	June 30, 2023
Tammy Stanton	Treasurer	June 30, 2023
Jason Haas	Trustee	June 30, 2022
Anna Berk	PC Governor, Trustee	June 30, 2022
November McIlhargey	Trustee	June 30, 2022
Mark Galanty	Trustee	June 30, 2023
Dominique DjeDje	Trustee	June 30, 2022
Dan Wierzba	Trustee	June 30, 2024

ADMINISTRATION

Stephanie Edwards	Executive Director
Kristy Mack-Fett	Executive Director

Ocean Charter School
 Schedule of Instructional Time
 Year Ended June 30, 2021

Grade Level	Number of Actual Days		Number of Days Credited Form J-13A	Total Days Offered	Status
	Traditional Calendar	Multitrack Calendar			
Kindergarten	180	N/A	-	180	Complied
Grades 1 - 3					
Grade 1	180	N/A	-	180	Complied
Grade 2	180	N/A	-	180	Complied
Grade 3	180	N/A	-	180	Complied
Grades 4 - 6					
Grade 4	180	N/A	-	180	Complied
Grade 5	180	N/A	-	180	Complied
Grade 6	180	N/A	-	180	Complied
Grades 7 - 8					
Grade 7	180	N/A	-	180	Complied
Grade 8	180	N/A	-	180	Complied

Ocean Charter School
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2021

Net Assets	
Balance, June 30, 2021, Unaudited Actuals	\$ 66,936,009
Decrease in	
Property and equipment, net	(20,787,283)
Accounts payable	<u>14</u>
Balance, June 30, 2021, Audited Financial Statements	<u><u>\$ 46,148,740</u></u>

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 Instructional Time

This schedule presents information on the number of instructional days offered on the traditional calendar and on any multitrack calendars by the Organization and whether the Organization complied with the provisions of *Education Code* section 47612.

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, 2021

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, 2021, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2022.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of findings and questioned costs* as item 2021-001 that we consider to be a material weakness.

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*.

Ocean Charter School's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Rancho Cucamonga, California
February 17, 2022



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 *2020-2021 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, 2021.

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 *2020-2021 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 laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS (EXCEPT AS STATED IN ATTENDANCE AND DISTANCE LEARNING AND INSTRUCTIONAL TIME)	
Attendance and Distance Learning	Yes
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Instructional Time	Yes
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
K-3 Grade Span Adjustment	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Charter School Facility Grant Program	No, see below

Programs listed above for “Local Education Agencies Other Than Charter Schools except as stated in Attendance and Distance Learning and Instructional Time” 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.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization was not classified as nonclassroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion

In our opinion, the Organization complied, in all material respects, with the laws and regulations of the state programs referred to above for the year ended June 30, 2021.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
February 17, 2022



Schedule of Findings and Questioned Costs
June 30, 2021

Ocean Charter School

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
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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The following finding represents a material weakness related to the financial statements that is required to be reported in accordance with Government Auditing Standards. The finding has been coded as follows:

	Five Digit Code	AB 3627 Finding Type
	30000	Internal Control
2021-001	30000 - Year End Closing (Material Weakness)	

Criteria or Specific Requirement

Verify that the Organization has an appropriate internal control system which would allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis, whether due to error or fraud.

Condition

During our audit of the financial statements, we were informed that a property was transferred to the authorizer, yet was still on the balance sheet of the Organization. We also noted costs of issuance still capitalized, these costs should have been fully amortized at the time the related debt was paid in full. These misstatements were not identified during the year-end closing process.

Questioned cost

There were no questioned costs associated with the condition noted

Context

The condition was identified through review of the Organization records related to the financial accounts balances.

Effect

A restatement of the financial statements was needed to correct the misstatement. Entries were posted to correct property and costs of issuance as well as the beginning balance.

Cause

This was an oversight that was not detected by the Organization subsequent to the transfer of the property to the authorizer and the early pay off of the debt.

Repeat Finding

No

Recommendation

To ensure accurate reporting prior to closing the financial statements, procedures should be established to ensure that property and equipment accounts are recorded correctly, and all transactions are properly accounted for at the time of the occurrence.

Corrective Action Plan and Views of Responsible Officials

In March 2018, OCS transferred title to its property to LAUSD in exchange for over \$30 million from LAUSD in order for OCS to begin construction of a new school facility on that property and for OCS to receive a 40-year rent-free lease to the property from LAUSD. This transfer was extensively negotiated and documented by both parties, with the full input and support of OCS's back-office provider, ExED. The property was under construction for the next three years and was not occupied by OCS until its partial occupancy in April 2021, when in-person instruction resumed during the Covid pandemic. This development of a new site for an independent charter school like OCS was remarkable in the level of involvement and resources ultimately devoted to it by both the State of California and LAUSD (over \$75 million).

In June 2021, with construction of the new facility virtually complete, ExED sought to determine how to capitalize the entire construction project. ExED was advised that the value of the land should have been removed from OCS's books at the time of the March 2018 transfer, with OCS's books also reflecting the value of the new 40-year leasehold interest.

The three-year delay in adjusting OCS's books to reflect the property transfer is the result of unique circumstances and not the result of a weak or flawed internal control system by OCS. In the seventeen-year history of OCS, OCS has never had a finding of a material weakness or other flaws in its internal control system. Nor does the current finding identify any issues relating to OCS's ongoing operations of a school. Rather, it relates only to a one-time transaction that is unprecedented in the history of the school and that is highly unlikely to ever be repeated. Moreover, given the complexity of the property transaction and construction, as well as the multiple financing arrangements entered into with LAUSD and the State, OCS necessarily and reasonably relied on a number of advisors to guide it through the process. LAUSD reviewed OCS's books on, at least, an annual basis, and it did not question the accuracy of OCS's accounting for the value of the property on its balance sheet. None of the numerous individuals and entities involved in preparing and reviewing OCS's books over the three-year period identified the accounting discrepancy, despite ample knowledge of the transaction and access to documents with further information on the transaction. As a result, OCS reasonably believed that a transaction that was well-known to all parties and part of a process that received repeated scrutiny had been accounted for correctly. When the problem was nevertheless identified, OCS and ExED promptly moved to correct the issue.

OCS has been, and will remain, committed to strengthening the management and review of its financial books on an ongoing basis to ensure that its books remain accurate and in accord with all relevant accounting standards.

None reported.

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