

**OCEAN CHARTER SCHOOL
CHARTER SCHOOL NUMBER: 0569**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2023



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**OCEAN CHARTER SCHOOL
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2023**

INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF CASH FLOWS	6
STATEMENT OF FUNCTIONAL EXPENSES	7
NOTES TO FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION	
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE	19
SCHEDULE OF INSTRUCTIONAL TIME	20
SCHEDULE OF AVERAGE DAILY ATTENDANCE	21
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS	22
NOTES TO SUPPLEMENTARY INFORMATION	23
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	24
INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER STATE COMPLIANCE	26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	30
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	31



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ocean Charter School
Los Angeles, California

Report on the Audit of the Financial Statements

Opinion

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, 2023, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ocean Charter School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023 the Organization adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with response to this matter.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Organization’s financial statements as a whole. The accompanying supplementary schedules as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and, except for the portion marked “unaudited”, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole. The Local Education Agency Organization Structure, which is marked “unaudited”, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2023 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 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.



CliftonLarsonAllen LLP

Glendora, California
November 30, 2023

**OCEAN CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,811,923
Restricted Cash	330,541
Accounts Receivable - Federal and State	1,418,270
Prepaid Expenses and Other Assets	41,754
Total Current Assets	3,602,488

LONG-TERM ASSETS

Operating Right-of-Use Assets, Net	34,156
Property, Plant, and Equipment, Net	55,058,604
Total Long-Term Assets	55,092,760

Total Assets	\$ 58,695,248
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Liabilities	\$ 894,745
Deferred Revenue - Other	461,612
Deferred Revenue - Augmentation Grant	330,541
Operating Lease Liabilities, Current Portion	14,221
Proposition 1D, Current Portion	267,920
Notes Payable, Current Portion	148,145
Total Current Liabilities	2,117,184

LONG-TERM LIABILITIES

Operating Lease Liabilities	19,935
Proposition 1D	9,735,298
Notes Payable	888,869
Total Long-Term Liabilities	10,644,102

Total Liabilities	12,761,286
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NET ASSETS

Without Donor Restriction:	
Undesignated	45,661,800
Board Designated - Operating Reserve	154,707
Board Designated - Maintenance Reserve Funds	117,455
Total Net Assets Without Donor Restriction	45,933,962

Total Liabilities and Net Assets	\$ 58,695,248
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See accompanying Notes to Financial Statements.

**OCEAN CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

REVENUES, WITHOUT DONOR RESTRICTION

State Revenue:	
State Aid	\$ 3,419,545
Other State Revenue	1,323,748
Federal Revenue:	
Grants and Entitlements	371,271
Local Revenue:	
In-Lieu Property Tax Revenue	1,852,139
Contributions of Cash and Other Financial Assets	636,861
Contributions of Nonfinancial Assets	593,254
Augmentation Grant	54,986
Program Revenues	538,890
Investment Income	428
Other Revenue	<u>31,015</u>
Total Revenues	<u>8,822,137</u>

EXPENSES

Program Services	7,585,951
Management and General	1,666,926
Fundraising	<u>21,873</u>
Total Expenses	<u>9,274,750</u>

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION

(452,613)

Net Assets Without Donor Restriction - Beginning of Year

46,386,575

NET ASSETS WITHOUT DONOR RESTRICTION - END OF YEAR

\$ 45,933,962

See accompanying Notes to Financial Statements.

**OCEAN CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (452,613)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	1,463,977
Change in Operating Assets:	
Accounts Receivable - Federal and State	(207,000)
Accounts Receivable - Other	9,221
Prepaid Expenses and Other Assets	(4,688)
Operating Right-Of-Use Asset	(34,156)
Change in Operating Liabilities:	
Accounts Payable and Accrued Liabilities	324,438
Deferred Revenue - Other	50,599
Deferred Revenue - Augmentation Grant	(54,986)
Operating Lease Liabilities	34,156
Net Cash Provided by Operating Activities	<u>1,128,948</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property, Plant, and Equipment	<u>(74,095)</u>
Net Cash Used by Investing Activities	(74,095)
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of Debt	<u>(444,926)</u>
Net Cash Used by Financing Activities	<u>(444,926)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	609,927
Cash and Cash Equivalents - Beginning of Year	<u>1,532,537</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,142,464</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest	<u><u>\$ 169,290</u></u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED WITHIN THE STATEMENT OF FINANCIAL POSITION	
Cash and Cash Equivalents	\$ 1,811,923
Restricted Cash and Cash Equivalents	<u>330,541</u>
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	<u><u>\$ 2,142,464</u></u>

See accompanying Notes to Financial Statements.

**OCEAN CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023**

	Program Services	Management and General	Fundraising	Total
Salaries and Wages	\$ 3,143,305	\$ 507,396	\$ -	\$ 3,650,701
Pension Expense	664,461	4,142	-	668,603
Other Employee Benefits	433,249	69,935	-	503,184
Payroll Taxes	118,871	33,672	-	152,543
Legal Expenses	-	40,273	-	40,273
Accounting Expenses	-	19,299	-	19,299
Instructional Materials	73,611	-	-	73,611
Other Fees for Services	471,684	222,921	-	694,605
Advertising and Promotion Expenses	-	1,656	-	1,656
Office Expenses	35,547	45,403	-	80,950
Information Technology Expenses	-	56,575	-	56,575
Occupancy Expenses	765,609	123,585	-	889,194
Travel Expenses	13,936	-	-	13,936
Interest Expense	-	185,962	-	185,962
Depreciation Expense	1,440,399	23,578	-	1,463,977
Insurance Expense	-	196,618	-	196,618
Other Expenses	372,563	135,911	21,873	530,347
District Oversight Fees	52,716	-	-	52,716
	<u>\$ 7,585,951</u>	<u>\$ 1,666,926</u>	<u>\$ 21,873</u>	<u>\$ 9,274,750</u>
Total				

See accompanying Notes to Financial Statements.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Ocean Charter School (the Organization) is a California nonprofit public benefit corporation and is organized to manage and operate a public charter school.

The Organization is funded principally through the state of California public education monies received through the California Department of Education and the Los Angeles Unified School District (the District).

The District has granted the charter through June 2026. The charter may be revoked by the District for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

Costs of providing the Organization's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The expenses that are allocated include pension expense, other employee benefits, payroll taxes, occupancy, and depreciation, which are allocated based on the ratio of salaries and wages directly applied to each function.

Cash and Cash Equivalents

The Organization defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classes

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed 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 (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a restricted maintenance account.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed 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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Accounts Receivable

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2023. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, if purchased, or at estimated fair value, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset. The Organization capitalizes all expenditures for land, buildings and equipment in excess of \$1,000.

Contributed Assets and Services

Contributions of donated nonfinancial assets are recorded at fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

Revenue Recognition

Amounts received from the California Department of Education are conditional and recognized as revenue by the Organization based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in net assets without donor restriction, if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in net assets with donor restriction.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Conditional Grants

Grants and contracts that are conditioned upon the performance of certain requirements or the incurrence of allowable qualifying expenses (barriers) are recognized as revenues in the period in which the conditions are met. 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 deferred revenues in the statement of financial position. As of June 30, 2023, the Organization has conditional grants of \$974,490 of which \$792,153 is recognized as deferred revenue in the statement of financial position.

Program Revenues

Program revenues consists primarily of after-school and summer program services. The performance obligation for providing these services, except the summer program, is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Deferred revenue represents payments for the summer program received prior to satisfaction of the performance obligation. The following table depicts information about changes in the summer program liabilities as deferred revenue for the year ended June 30, 2023:

	Program Service Fees
Balance - Beginning of Year	\$ 49,449
Revenue Recognized	(49,449)
Payments Received for Future Performance Obligations	-
Balance - End of Year	\$ -

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the Organization is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability of the Organization. Full-time, 12-month employees accrue five days of paid vacation per year and employees who have worked at the Organization for more than one year can accrue an additional five days per year.

Income Taxes

The Organization is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Organization files an exempt organization return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

Leases

The Organization leases certain equipment and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, and operating lease liabilities on the statement of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the School uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the statement of financial position.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if the Organization has obtained substantially all of the rights to the underlying asset through exclusivity, if the Organization can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Adoption of New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption with certain practical expedients available.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected not to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

The Organization elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022 a ROU asset at the carrying amount of the operating lease asset of \$50,861. The Organization also recognized on July 1, 2022 a lease liability of \$50,861, which represents the present value of the remaining finance lease payments discounted using a risk free rate.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

The standard had a material impact on the statement of financial position but did not have an impact on the statement of activities, nor the statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Evaluation of Subsequent Events

The Organization has evaluated subsequent events through November 30, 2023, the date these financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure are those without donor or other restrictions limiting their use within one year of the statement of financial position date. Financial assets available for general expenditures are comprised of the following as of June 30, 2023:

Cash and Cash Equivalents	\$ 1,811,923
Accounts Receivable	1,418,270
Less: Board Designated Net Assets	(272,162)
Total	<u>\$ 2,958,031</u>

As part of its liquidity management plan, the Organization monitors liquidity required and cash flows to meet operating needs on a monthly basis. The Organization structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

NOTE 3 CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts at various institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, cash in these accounts exceeds the insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$1,463,977 for the year ended June 30, 2023.

The components of property, plant, and equipment as of June 30, 2023 are as follows:

Building Improvements	\$ 58,274,673
Equipment, Furniture and Fixtures	105,056
Total	58,379,729
Less: Accumulated Depreciation	(3,321,125)
Total Property, Plant, and Equipment	\$ 55,058,604

NOTE 5 LONG-TERM DEBT

Proposition 1D

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 Organization was awarded \$7,543,549 in Charter School Facilities Program funding established by Proposition 1D. During the fiscal year ended June 30, 2018, the Organization 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, 2023, the liability balance of Proposition 1D was \$10,003,218.

Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 267,920
2025	273,324
2026	278,838
2027	284,463
2028	290,202
Thereafter	8,608,471
Total	\$ 10,003,218

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 5 LONG-TERM DEBT (CONTINUED)

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 through June 2030. The Organization has authorized the District to deduct the payment from the Organization's revenue account.

Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 148,145
2025	148,145
2026	148,145
2027	148,145
2028	148,145
Thereafter	296,289
Total	<u><u>\$ 1,037,014</u></u>

NOTE 6 LINE OF CREDIT

The Organization has a line of credit of up to \$1,300,000 that carries a variable interest rate representing the prime rate that expires on October 3, 2023. The Organization has no outstanding balance as of June 30, 2023.

NOTE 7 LEASES – ASC 842

The Organization leases equipment for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2026.

The following table provides quantitative information concerning the Organization's leases for the year ended June 30, 2023:

	<u>Amount</u>
Lease Costs:	
Operating Lease Costs	\$ 17,904
Total Lease Costs	<u><u>17,904</u></u>
Other Information:	
Operating Cash Flows from Operating Leases	\$ 17,904
Right-Of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 50,861
Weighted-Average Remaining Lease Term - Operating Leases	2.5 Years
Weighted-Average Discount Rate - Operating	2.87%

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 LEASES – ASC 842 (CONTINUED)

The Organization classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2024	\$ 14,221
2025	12,864
2026	8,247
Total Lease Payments	<u>35,332</u>
Less: Present Value Discount	(1,176)
Present Value of Lease Liabilities	<u>\$ 34,156</u>

NOTE 8 NET ASSETS

The Organization’s net assets consist of the following at June 30, 2023:

Net Assets Without Donor Restriction:	
Undesignated	\$ 45,661,800
Designated for Operating Reserve	154,707
Designated for Maintenance Reserve Funds	117,455
Total Net Assets Without Donor Restriction	<u>\$ 45,933,962</u>

NOTE 9 EMPLOYEE RETIREMENT

State Teachers’ Retirement System (STRS)

Plan Description

The Organization contributes to the State Teachers’ Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers’ Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2022 total STRS plan net assets are \$300 billion, the total actuarial present value of accumulated plan benefits is \$434 billion, contributions from all employers totaled \$6.513 billion, and the plan is 74.4% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826 and www.calstrs.com.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 EMPLOYEE RETIREMENT (CONTINUED)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 10.21% of their salary. The Organization is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for year ended June 30, 2023 was 19.10% of annual payroll. The contribution requirements of the plan members are established and may be amended by state statute.

The Organization's contributions to STRS for the past three years are as follows:

<u>Year Ending June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2021	\$ 270,463	100%
2022	\$ 341,961	100%
2023	\$ 430,638	100%

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 \$208,163 which were recorded as revenues and expenditures in the financial statements.

Defined Contribution Plan

The Organization offers an Internal Revenue Code Section 403(b) retirement plan to each of its qualifying employees. The Organization reviews the plan annually and determines the amount of employer contributions, if any, for the year. During the year ended June 30, 2023, the Organization contributed \$29,802 to this plan.

NOTE 10 CONTRIBUTIONS OF NONFINANCIAL ASSETS

The Organization recognized contributed nonfinancial assets representing in-kind rent for its school facility. The facility is under a 40-year no cost lease with Los Angeles Unified School District (LAUSD) conditional upon the Organization continuing to operate its charter school. In valuing the in-kind rent, which is located in Los Angeles, the Organization estimated the fair value on the basis of comparable lease prices in the Los Angeles real estate market. During the year ended June 30, 2023 the Organization recognized \$561,089 in contributions of nonfinancial assets and a corresponding expense.

**OCEAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 10 CONTRIBUTIONS OF NONFINANCIAL ASSETS (CONTINUED)

The Organization received in-kind donations of various good, gift cards, and gift certificates for various services for its silent auction fundraising event. The Organization estimates the fair value based on the donor's valuation of its sale price. During the year ended June 30, 2023 the Organization recognized \$32,165 in contributions of nonfinancial assets and corresponding other assets representing the amount of unsold goods.

NOTE 11 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 required reimbursement would not be material.

SUPPLEMENTARY INFORMATION

**OCEAN CHARTER SCHOOL
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 YEAR ENDED JUNE 30, 2023
 (SEE INDEPENDENT AUDITORS' REPORT)
 UNAUDITED**

The Organization began was granted its charter in August 2002 by the Los Angeles Unified School District (the District).

Charter school number authorized by the State: 0569

The Board of Trustees and the Administrators as of June 30, 2023 were as follows:

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term End (Length)</u>
Laura Stoland	Board Chair	June 2024 (3 years)
Edward Eadon	Vice Chair	June 2024 (3 years)
Tammy Stanton	Treasurer	June 2023 (3 years)
Sue Ingles	Secretary	June 2023 (3 years)
Mark Galanty	Trustee	June 2023 (3 years)
Dominique DjeDje	Trustee	June 2025 (3 years)
Jennifer Jacobus	Trustee	June 2024 (2 years)
Maya Rao	Trustee	June 2026 (3 years)
Joshua Stokes	Trustee	June 2026 (3 years)

ADMINISTRATORS

Stephanie Edwards	Executive Director
Kristy Mack-Fett	Executive Director

**OCEAN CHARTER SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2023**

	Instructional Minutes		Traditional Calendar	Status
	Requirement	Actual	Days	
Grade K	36,000	50,940	180	In compliance
Grade 1	50,400	50,820	180	In compliance
Grade 2	50,400	50,820	180	In compliance
Grade 3	50,400	50,820	180	In compliance
Grade 4	54,000	54,600	180	In compliance
Grade 5	54,000	54,600	180	In compliance
Grade 6	54,000	54,600	180	In compliance
Grade 7	54,000	55,920	180	In compliance
Grade 8	54,000	55,920	180	In compliance

See accompanying Independent Auditors' Report and the Notes to Supplementary Information.

**OCEAN CHARTER SCHOOL
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
YEAR ENDED JUNE 30, 2023**

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Grades TK/K-3	233.73	237.20	235.83	239.01
Grades 4-6	175.02	176.98	177.41	179.03
Grades 7-8	100.52	101.99	100.43	101.71
ADA Totals	509.27	516.17	513.67	519.75

See accompanying Independent Auditors' Report and the Notes to Supplementary Information.

**OCEAN CHARTER SCHOOL
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023**

June 30, 2023 Annual Financial Report Fund Balances (Net Assets)	\$ 45,883,979
Adjustments and Reclassifications:	
Increase (Decrease) of Fund Balance (Net Assets):	
Prepaid Expenses and Other Assets	32,165
Operating Right-of-Use Assets	34,156
Accounts Payable and Accrued Liabilities	(16,671)
Operating Lease Liabilities	(34,156)
Deferred Revenue - Other	34,489
Net Adjustments and Reclassifications	<u>49,983</u>
June 30, 2023 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 45,933,962</u>

See accompanying Independent Auditors' Report and the Notes to Supplementary Information.

**OCEAN CHARTER SCHOOL
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2023**

PURPOSE OF SCHEDULES

NOTE 1 SCHEDULE OF INSTRUCTIONAL TIME

This schedule presents information on the amount of instructional time offered by the charter school and whether the Organization complied with the provisions of the Education Code.

NOTE 2 SCHEDULE OF AVERAGE DAILY ATTENDANCE

Average daily attendance is a measurement of the number of pupils attending classes of the charter school. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

NOTE 3 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
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), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2023.

Report on 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 opinions 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.

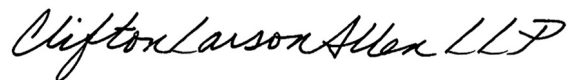
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on 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 non-compliance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
November 30, 2023



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER STATE COMPLIANCE

Board of Trustees
Ocean Charter School
Los Angeles, California

Report on Compliance

Opinion on State Compliance

We have audited Ocean Charter School's (the Organization) compliance with the types of compliance requirements applicable to the Organization described in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2023. The Organization's applicable State compliance requirements are identified in the table below.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that are applicable to the Organization for the year ended June 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards and *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's government programs.

Auditors' Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not Applicable ¹
After/Before School Education and Safety Program	Not Applicable ²
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable ³
Immunizations	Not Applicable ⁴
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant (CTEIG)	Not Applicable ⁵
Transitional Kindergarten	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable ⁶
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable ⁷

Not Applicable¹: The Organization did not have any expenditures for California Clean Energy Jobs Act in the year under audit or a completed project between 12 and 15 months prior to any month in the audit year.

Not Applicable²: The Organization did not operate an after or before school program component of this grant.

Not Applicable³: The Organization did not report ADA pursuant to Education Code section 51749.5.

Not Applicable⁴: The Organization did not have any charter school subject to audit of immunizations as listed in the California Department of Public Health (CDPH) website as listed in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Not Applicable⁵: The Organization did not receive a CTEIG allocation for the audit year.

Not Applicable⁶: The Organization did not report more than 20% of its ADA as generated through nonclassroom-based instruction (independent study).

Not Applicable⁷: The Organization did not receive Charter School Facility Grant Program funding for the year audited.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
November 30, 2023

**OCEAN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023**

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
43000	Apprenticeship
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards* or the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**OCEAN CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2023**

There were no findings and questioned costs related to the basic financial statements or state awards for the prior year.



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