



Certified Public Accountants
and Financial Advisors

Oakland School for the Arts

Charter School #0340

Financial Statements

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oakland School for the Arts
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of Oakland School for the Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the fiscal 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 entity'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 entity'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 financial position of Oakland School for the Arts as of June 30, 2017, and the statement of activities and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of Oakland School for the Arts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Oakland School for the Arts' internal control over financial reporting and compliance.

SQUAR MILNER LLP

San Diego, California
December 7, 2017

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

Current assets:

Cash	\$ 2,176,540
Investments	891,234
Accounts receivable	1,055,777
Prepaid expenses	1,004,660
Unconditional promise to give, current portion	<u>525,000</u>

Total current assets 5,653,211

Fixed assets, net 913,357

Deposits 37,536

Prepaid rent 683,992

Unconditional promise to give, less current portion 5,031,250

TOTAL ASSETS \$ 12,319,346

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 99,676
Accrued expenses	577,970
Deferred revenue	7,500
Deferred rent	<u>153,981</u>

Total current liabilities 839,127

Bonds payable 1,000,000

Total liabilities 1,839,127

Net assets:

Temporarily restricted 6,816,181

Unrestricted 3,664,038

Total net assets 10,480,219

TOTAL LIABILITIES AND NET ASSETS \$ 12,319,346

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Revenue limit sources:			
State aid apportionments	\$ 3,188,596	\$ -	\$ 3,188,596
Education protection account	1,061,670	-	1,061,670
In-lieu of property taxes	1,691,658	-	1,691,658
Federal revenues	111,921	-	111,921
State revenues	1,334,652	75,000	1,409,652
Local revenues:			
Donations	770,937	-	770,937
Fundraising	707,000	-	707,000
Contributions	211,184	-	211,184
Other local revenue	558,214	12,329	570,543
Interest and dividends	5,227	31,426	36,653
Net unrealized investment loss	(521)	(1,589)	(2,110)
Total revenue and support before transfers	<u>9,640,538</u>	<u>117,166</u>	<u>9,757,704</u>
Net assets released from restrictions	<u>525,000</u>	<u>(525,000)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u><u>10,165,538</u></u>	<u><u>(407,834)</u></u>	<u><u>9,757,704</u></u>
EXPENSES			
Program services:			
Education	8,604,093	-	8,604,093
Support services:			
Management and general	1,615,583	-	1,615,583
Other services:			
Fundraising	<u>327,886</u>	<u>-</u>	<u>327,886</u>
TOTAL EXPENSES	<u><u>10,547,562</u></u>	<u><u>-</u></u>	<u><u>10,547,562</u></u>
CHANGE IN NET ASSETS	(382,024)	(407,834)	(789,858)
NET ASSETS, BEGINNING OF YEAR	<u>4,046,062</u>	<u>7,224,015</u>	<u>11,270,077</u>
NET ASSETS, END OF YEAR	<u><u>\$ 3,664,038</u></u>	<u><u>\$ 6,816,181</u></u>	<u><u>\$ 10,480,219</u></u>

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2017

	Program Services	Support Services	Other Services	
	Education	Management and General	Fundraising	Total
Certificated salaries	\$ 2,297,405	\$ 55,485	\$ 27,742	\$ 2,380,632
Classified salaries	2,386,709	878,139	133,687	3,398,535
Employee benefits	1,077,158	200,129	36,792	1,314,079
Books and supplies	511,006	69,782	12,871	593,659
Travel and conferences	10,701	1,988	365	13,054
Dues and memberships	6,216	1,155	212	7,583
Insurance	44,502	8,268	1,520	54,290
Operation and housekeeping services	258,383	48,002	8,829	315,214
Rental, leases, repairs, and non-capitalized improvements	1,430,029	265,707	48,830	1,744,566
Indirect ceosts	31,947	5,927	1,098	38,972
Professional/consulting services and operating expenditures	403,845	53,847	50,942	508,634
Communications	34,765	6,459	1,186	42,410
Depreciation and amortization	111,427	20,695	3,812	135,934
Total expenses	<u>\$ 8,604,093</u>	<u>\$ 1,615,583</u>	<u>\$ 327,886</u>	<u>\$ 10,547,562</u>

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (789,858)
Adjustments to reconcile change in net assets to net cash used in operations:	
Depreciation	132,808
Amortization	3,126
Unrealized loss on investments	2,110
Noncash contribution of stock	(5,509)
(Increase) decrease in operating assets:	
Accounts receivable	(35,885)
Prepaid expenses	(75,021)
Deposits	(300)
Unconditional promise to give	525,000
Prepaid rent	447,316
Increase (decrease) in operating liabilities:	
Accounts payable	(56,739)
Accrued expenses	(163,562)
Deferred rent	(18,696)
Net cash flows used in operating activities	(35,210)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets	(561,372)
Sale of investments, net of maturities	2,739,115
Purchase of investments, net of maturities	(1,781,065)
Net cash flows provided by investing activities	396,678

NET INCREASE IN CASH	361,468
CASH, BEGINNING OF YEAR	1,815,072
CASH, END OF YEAR	\$ 2,176,540

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 62
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OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. ORGANIZATION AND MISSION

Oakland School for the Arts (the Organization) is a non-profit public benefit corporation. The Organization petitioned and was approved through Oakland Unified School District for a charter renewal for a five-year period ending June 30, 2020. The Organization was approved by the State of California Department of Education on October 11, 2000.

The Organization balances an immersive arts program with a comprehensive academic curriculum, providing students unique opportunities for learning, expression, innovation and personal growth. The Organization's arts and academic programs build discipline and confidence, effectively preparing creative youth to achieve their potential both in and outside of the arts. The Organization's graduates will be prepared to attend four-year universities in the area of their choice.

The Organization commenced operations during the 2002-2003 fiscal year and currently serves approximately 700 students in grade 6 through grade 12.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are presented in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets: Unrestricted net assets are available to support all activities of the Organization, and are not subject to donor-imposed stipulations. These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets were \$6,816,181 as of June 30, 2017.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that the restrictions be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. There were no permanently restricted net assets as of June 30, 2017.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Method – Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to not-for-profit organizations. The Organization uses the accrual basis of accounting, under which revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Use of Estimates

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

Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Organization uses the same accounting methods for tax and financial reporting.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Cash

Cash is from time to time variously composed of cash on hand and cash in banks. The organization considers all highly liquid instruments with maturities of three months or less at time of acquisition to be cash equivalents. As of June 30, 2017, there were no cash equivalents.

Investments

The Organization presents its investments in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320, *Not-For-Profit Entities - Investments Debt & Equity Securities*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. The fair values of these investments are subject to change based on the fluctuations of market values. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) establishes a framework for measuring fair value. That framework provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs that are unobservable inputs for the asset or liability.

Fixed Assets

Fixed assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 5 to 10 years. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets, sold or retired, and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred.

Deferred Revenue

Deferred revenue represents grant funds received, but not expended. These funds must be expended in accordance with the provisions of the contract to which they apply or refunded if not expended under the terms of the contract. As of June 30, 2017, the Organization had \$7,500 of deferred revenue.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as current liabilities of the Organization. Accumulated sick leave benefits are not recognized as liabilities of the Organization. The Organization's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Revenue Sources and Recognition

The Organization receives federal, state and local revenues for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies.

The Organization primarily receives the funds from California Department of Education (CDE). Amounts received from the CDE are recognized by the Organization based on the average daily attendance (ADA) of students.

The Organization recognizes federal revenue to the extent that eligible expenditures have been incurred.

Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Functional Allocation of Expenses

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and managements' estimates of the usage of resources.

New Accounting Pronouncements

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

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

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

3. CASH

Cash at June 30, 2017, consisted of the following:

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2017, the Organization had \$1,022,916 in excess of FDIC insured limits.

Cash in banks	\$ 1,106,004
Cash in brokerage firm	1,070,528
Petty cash	8
Total cash	<u>\$ 2,176,540</u>

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. INVESTMENTS

Investments at June 30, 2017 consist of the following:

Commercial Paper	\$ 891,234
Total	<u>\$ 891,234</u>

Following is a description of the valuation methodologies used for assets measured at fair value. All investments are classified as level 2 in the fair value hierarchy.

4. INVESTMENTS (continued)

Commercial Paper - Valued using a matrix pricing model which utilizes quoted prices of securities that are comparable in rating, yield, due date and other characteristics.

Investment income for the year ended June 30, 2017, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Unrealized loss on investments	\$ (521)	\$ (1,589)
Interest and dividends	5,227	31,426
Total investment income	<u>\$ 4,706</u>	<u>\$ 29,837</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017, consisted of the following:

Revenue limit sources:	
State aid apportionments	\$ 287,565
Education protection account	237,826
In-lieu of property taxes	148,715
Federal revenues	502
State revenues	289,924
Local revenues:	
Donations	65,250
Miscellaneous	25,995
Total accounts receivable	<u>\$ 1,055,777</u>

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

6. FIXED ASSETS

Fixed assets at June 30, 2017, consisted of the following:

Improvement of sites	\$ 5,644,547
Equipment	2,423,589
Furniture and fixtures	337,424
Less: accumulated depreciation	<u>(7,492,203)</u>
Total fixed assets, net of accumulated depreciation	<u>\$ 913,357</u>

During the fiscal year ended June 30, 2017, \$132,808 was charged to depreciation expense.

7. PREPAID RENT

Prepaid rent represents the balance of advance payments made by the Organization on its facility lease (see Note 12). The improvements to the facility were completed in December 2008 and the Organization occupied the facility in January 2009. At June 30, 2017, the balance in prepaid facility lease was \$1,624,492, of which the lease payments due in one year totaling \$940,500 is a current asset included in prepaid expenses and the remaining balance of \$683,992 is a noncurrent asset on the Statement of Financial Position.

8. UNCONDITIONAL PROMISE TO GIVE

On April 15, 2006, as part of an agreement with the Oakland Port Authority, an advertising company agreed to provide the greater of \$367,500 or 31.5% of gross revenue of an advertising billboard per year for Year 1 through Year 5 and the greater of \$367,500 or 35.0% of gross revenue for Year 6 through Year 20. In May 2008, an additional advertising billboard was unconditionally promised from the same advertising company to provide the greater of \$157,500 or 13.5% of gross revenue for Year 1 through Year 5 and the greater of \$157,500 or 15.0% of gross revenues for Year 6 through Year 20.

This amount is reflected in the financial statements as an unconditional promise to give and as temporarily restricted net assets as of June 30, 2017.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. ACCRUED EXPENSES

Accrued expenses at June 30, 2017, consisted of the following:

Wages and benefits payable	\$ 439,665
Compensated absences	119,793
Accrued expenses	13,840
Miscellaneous	4,672
Total accrued expenses	<u>\$ 577,970</u>

10. BONDS PAYABLE

On December 9, 2004, the ABAG Finance Authority for Non-profit Corporations issued Revenue Bond, Series 2004, in the amount of \$1,000,000 on behalf of the Organization, for the purpose of financing the renovation of school facilities. These bonds carry a tax credit rate of 5.62%, bear no interest and have a maturity date of December 9, 2020. There is no principal payment due on the bonds until maturity, at which time the full principal payment of \$1,000,000 is due. Funds held as commercial paper investments will be used for repayment of the bond (see Note 4).

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of entitlements received but not expended as of June 30, 2017. At June 30, 2017, the Organization had the following temporarily restricted net assets:

Unconditional promise to give	\$ 5,556,250
Investments	891,234
Restricted school activity funds	233,569
Educator Effectiveness	60,128
College Readiness Block Grant	75,000
Total temporarily restricted net assets	<u>\$ 6,816,181</u>

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

12. OPERATING LEASES

The Organization leases office equipment and facilities under operating lease agreements expiring at various times through June 2021. Future minimum lease payments consist of the following:

Year Ending June 30,	Lease Payments
2018	\$ 1,487,344
2019	1,499,800
2020	1,262,742
2021	1,181,700
Total future lease payments	<u>\$ 5,431,586</u>

The Organization expects to receive approximately \$65,882 in sublease rental revenue through March 2018. For the fiscal year ended June 30, 2017, sublease rental revenue was \$85,924. There are no contingent rentals associated with the lease. The Organization recognizes escalating rent provisions on a straight-line basis over the lease term. The difference between the rent expense and the required lease payments is reflected as deferred rent in the accompanying Statement of Financial Position. For the fiscal year ended June 30, 2017, operating lease expense was \$1,616,978.

13. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

STRS

Plan Description

The Organization contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. 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, 2017, total plan assets are \$177.9 billion, the total actuarial present value of accumulated plan benefits is \$333.3 billion, contributions from all employers totaled \$3.2 billion, and the plan is 63.7% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

13. EMPLOYEE RETIREMENT SYSTEMS (continued)

STRS (continued)

Plan Description (continued)

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

Funding Policy

Active plan members are required to contribute 8% of their salary and 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 fiscal year 2016-2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contributions to STRS for the fiscal year ending June 30, 2017, was \$272,620 and equal 100% of the required contributions for the year.

14. COMMITMENTS AND CONTINGENCIES

State Allowances, Awards, and Grants

The Organization has received state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursement will not be material.

15. SUBSEQUENT EVENTS

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through December 7, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

**OAKLAND SCHOOL FOR THE ARTS
ORGANIZATION
JUNE 30, 2017**

Oakland School for the Arts [#0340] is a grade 6 through grade 12 Charter School and was granted its charter renewal by Oakland Unified School District in June 30 2020, pursuant to the terms of the Charter School Act of 1992, as amended.

The Board of Directors for the fiscal year ended June 30, 2017, was comprised of the following members:

Name	Office	Term	Term Expiration
Rebecca Eisen	President	3 Years	June 30, 2018
Bruce Lawrence, M. D.	Vice President	3 Years	June 30, 2018
Mike Barr	Treasurer	3 Years	June 30, 2017
Carol Isen	Secretary	3 Years	June 30, 2017
Ken Brooks	Member	3 Year	June 30, 2019
Steven Borg	Member	3 Years	June 30, 2017
Johnathan Dharmapalan	Member	3 Years	June 30, 2017
Stephen Goldstein	Member	3 Year	June 30, 2019
Lucella Harrison	Member	3 Year	June 30, 2018
April Hines	Member	3 Years	June 30, 2017
Matthew Novak	Member	3 Years	June 30, 2019
Elise Darwish	Member	4 Years	June 30, 2020
Randi Protopappas	Member	3 Years	June 30, 2018
Diane Woods	Member	3 Years	June 30, 2019

Administration

Name	Position
Brian Kohn	Executive Director
Jonathan Faustine	Chief Business Officer
Antonette G. West	Director of Finance

OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Fiscal Year End June 30, 2017

The Organization is 100% classroom-based and generates no ADA from a full-time independent study program.

	<u>Second Period</u> <u>Report</u>	<u>Annual</u> <u>Report</u>
Grades 4 - 6	102.38	101.57
Grades 7 - 8	213.83	211.72
Grades 9 -12	419.87	415.21
Total	<u>736.08</u>	<u>728.50</u>

**OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year End June 30, 2017**

<u>Grade Level</u>	<u>2016-2017 Minutes Requirements</u>	<u>2016-2017 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 6	54,000	60,625	174	Not Compliant
Grade 7	54,000	60,625	174	Not Compliant
Grade 8	54,000	60,625	174	Not Compliant
Grade 9	64,800	66,550	174	Not Compliant
Grade 10	64,800	66,550	174	Not Compliant
Grade 11	64,800	66,550	174	Not Compliant
Grade 12	64,800	66,550	174	Not Compliant

OAKLAND SCHOOL FOR THE ARTS
RECONCILIATION OF CHARTER SCHOOL UNAUDITED ACTUALS
FINANCIAL REPORT - ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

	Charter School
June 30, 2017, Charter School Unaudited Actuals Financial Report -- Alternative Form, Ending Fund Balance	\$ 10,426,070
Adjustments and reclassification:	
Increasing (decreasing) the fund balance to net assets:	
Cash in banks understatement	1,070,536
Investments overstatement	(1,011,734)
Accounts receivable understatement	67,938
Prepaid expenditures overstatement	(445,762)
Other current assets overstatement	477,122
Capital assets overstatement	(5,741,833)
Other noncurrent assets understatement	5,752,778
Accounts payable understatement	(641,887)
Deferred revenue understatement	(7,500)
Current loans overstatement	591,853
Deferred rent understatement	(153,981)
Long-term liabilities overstatement	96,619
Net adjustments and reclassifications	54,149
June 30, 2017, audited financial statements, net assets	\$ 10,480,219

OTHER INDEPENDENT AUDITOR'S REPORT

**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***

Board of Directors
Oakland School for the Arts
Oakland, 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 Oakland School for the Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements 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 December 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oakland School for the Arts' internal control over financial reporting (internal control) to determine the 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 Oakland School for the Arts' internal control. Accordingly, we do not express an opinion on the effectiveness of Oakland School for the Arts' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oakland School for the Arts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

SQUAR MILNER LLP

San Diego, California
December 7, 2017

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Oakland School for the Arts
Oakland, California

Report on Compliance for Each State Program

We have audited Oakland School for the Arts' compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of Oakland School for the Arts' state programs for the fiscal year ended June 30, 2017. Oakland School for the Arts' state programs are identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Oakland School for the Arts' state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 State's Audit Guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Oakland School for the Arts' 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 compliance for each state program. However, our audit does not provide a legal determination of Oakland School for the Arts' compliance. In connection with the audit referred to above, we selected transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:



Description	Procedures Performed
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Not Applicable
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
Immunizations	Yes
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Yes

The term “Not Applicable” is used above to mean either that the Organization did not offer the program during the current fiscal year, or that the program applies only to a different type of local education agency.

Opinion on State Programs (Modified Opinion)

Basis for Modified Opinion on Annual Instructional Minutes – Classroom Based

As described in the accompanying schedule of findings and questioned costs, finding number 2017-01, Oakland School for the Arts did not comply with requirements regarding Annual Instructional Minutes – Classroom Based. Compliance with such requirements is necessary, in our opinion, for the Oakland School for the Arts to comply with the requirements applicable to that program.

Modified Opinion on Annual Instructional Minutes – Classroom Based

In our opinion, except for the non-compliance described in the “Basis for Modified Opinion on Annual Instructional Minutes – Classroom Based” paragraph, Oakland School for the Arts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Annual Instructional Minutes – Classroom Based for the fiscal year ended June 30, 2017.

Unmodified Opinion on Each of the Other State Programs

In our opinion, Oakland School for the Arts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other state programs for the fiscal year ended June 30, 2017.



Other Matters

Oakland School for the Art's response to the non-compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Oakland School for the Art's response has not been subjected to the auditing procedures applied in the audit of compliance, and accordingly, we do not express an opinion or provide any assurance on it.

The purpose of this report on state compliance is solely to describe the scope of our testing of state compliance and the results of that testing based on the requirements of 2016-17 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

SQUAR MILNER LLP

SQUAR MILNER LLP

San Diego, California
December 7, 2017

FINDINGS AND RECOMMENDATIONS

OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2017

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes N/A No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditor's report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported under section 200.516 Audit Findings paragraph (a) of OMB Uniform Guidance? Yes N/A No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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The Organization did not have over \$750,000 in Federal Expenditures.

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? Yes N/A No

OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2017

D. State Award Findings and Questioned Costs (continued)

(6) Estimated dollar impact

A negative impact of \$18,221, calculated by one 175th of the Local Control Funding Formula of \$3,188,596 for the year ended June 30, 2017.

(7) Recommendation

For emergency conditions, contact the California Department of Education and obtain an allowance of attendance for the closure.

(8) Corrective Action Plan

The Organization's plan is to comply with the requirements applicable to the finding and to contact the California Department of Education to apply for an allowance of attendance.

**OAKLAND SCHOOL FOR THE ARTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2017**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Implemented</u>
None	N/A	N/A