



Certified Public Accountants
and Financial Advisors

Oakland School for the Arts

Charter School #0340

Financial Statements

June 30, 2019

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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, 2019, 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, 2019, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Prior Period Restatement

As discussed in Note 15 to the financial statements, Oakland School for the Arts net assets at June 30, 2018 were reduced in the net amount of \$38,395 to correct an error in accounts receivable at June 30, 2019. There was an additional net asset reclassification in the amount of \$56,021 from net assets with donor restriction to net assets without donor restriction. Our opinion is not modified with respect to this matter.

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 index to financial statements 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 16, 2019, 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 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 Oakland School for the Arts' 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 16, 2019

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF FINANCIAL POSITION
For the Fiscal Year Ended June 30, 2019

ASSETS

Current assets:

Cash	\$ 2,087,355
Accounts receivable	1,659,107
Prepaid expenses and other assets	1,017,346
Unconditional promise to give, current portion	<u>525,000</u>

Total current assets 5,288,808

Fixed assets, net 712,939

Deposits 37,036

Investments 955,127

Unconditional promise to give, less current portion 3,981,250

TOTAL ASSETS \$ 10,975,160

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 67,105
Accrued expenses	677,283
Deferred revenue	1,153
Deferred rent	<u>71,962</u>

Total current liabilities 817,503

Bonds payable, net 995,312

Total liabilities 1,812,815

Net assets:

Net assets with donor restrictions 5,631,616

Net assets without donor restrictions - undesignated 3,530,729

Total net assets 9,162,345

TOTAL LIABILITIES AND NET ASSETS \$ 10,975,160

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

	<u>Net Assets without donor restrictions</u>	<u>Net Assets with donor restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Revenue limit sources:			
State aid apportionments	\$ 3,179,837	\$ -	\$ 3,179,837
Education protection account	1,242,128	-	1,242,128
In-lieu of property taxes	1,798,017	-	1,798,017
Federal revenues	263,038	-	263,038
State revenues	2,063,774	196,867	2,260,641
Local revenues:			
Donations	376,011	-	376,011
Fundraising	702,094	-	702,094
Other local revenue	638,667	380,501	1,019,168
Interest and dividends	24,110	16,126	40,236
Net unrealized investment gain	-	19,095	19,095
Total revenues before transfers	<u>10,287,676</u>	<u>612,589</u>	<u>10,900,265</u>
Net assets released from restrictions	<u>1,007,128</u>	<u>(1,007,128)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>11,294,804</u>	<u>(394,539)</u>	<u>10,900,265</u>
EXPENSES			
Program services:			
Education	9,148,056	-	9,148,056
Support services:			
Management and general	2,241,702	-	2,241,702
Other services:			
Fundraising	<u>460,972</u>	<u>-</u>	<u>460,972</u>
TOTAL EXPENSES	<u>11,850,730</u>	<u>-</u>	<u>11,850,730</u>
CHANGE IN NET ASSETS	(555,926)	(394,539)	(950,465)
NET ASSETS, BEGINNING OF YEAR - RESTATED (NOTE 15)	<u>4,086,655</u>	<u>6,026,155</u>	<u>10,112,810</u>
NET ASSETS, END OF YEAR	<u>\$ 3,530,729</u>	<u>\$ 5,631,616</u>	<u>\$ 9,162,345</u>

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2019

	Program Services	Support Services	Other Services	
	Education	Management and General	Fundraising	Total
Certificated salaries	\$ 2,606,179	\$ 108,366	\$ 49,258	\$ 2,763,803
Classified salaries	2,146,590	1,134,115	177,919	3,458,624
Employee benefits	1,505,725	393,631	71,972	1,971,328
Books and supplies	297,991	36,227	6,624	340,842
Travel and conferences	55,924	3,361	614	59,899
Dues and memberships	6,089	1,592	291	7,972
Insurance	39,292	10,272	1,878	51,442
Operation and housekeeping services	271,699	71,029	12,987	355,715
Rental, leases, repairs, and non-capitalized improvements	1,263,846	330,397	60,410	1,654,653
Professional/consulting services and operating expenditures	653,245	73,899	13,512	740,656
Fundraising expense	-	-	51,097	51,097
Interest expense	335	88	16	439
Communications	42,947	11,227	2,053	56,227
District oversight fee	47,509	12,420	2,271	62,200
Depreciation and amortization	210,685	55,078	10,070	275,833
Total expenses	<u>\$ 9,148,056</u>	<u>\$ 2,241,702</u>	<u>\$ 460,972</u>	<u>\$ 11,850,730</u>

OAKLAND SCHOOL FOR THE ARTS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (950,465)
Adjustments to reconcile change in net assets to net cash used in operations:	
Unrealized (gain) on investments	(19,095)
Depreciation and amortization	275,834
(Increase) decrease in operating assets:	
Accounts receivable	(597,765)
Prepaid expenses and other assets	426,491
Deposits	1,500
Unconditional promise to give	524,999
Increase (decrease) in operating liabilities:	
Accounts payable	14,306
Accrued expenses	219,167
Deferred revenue	1,153
Deferred rent	(47,626)
Net cash flows used in operating activities	<u>(151,501)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets	(30,024)
Sale of investments	912,889
Purchase of investments	<u>(929,000)</u>
Net cash flows used in investing activities	<u>(46,135)</u>

NET DECREASE IN CASH (197,636)

CASH, BEGINNING OF YEAR 2,284,991

CASH, END OF YEAR \$ 2,087,355

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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's initial charter 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

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not for Profit entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities, which the Organization adopted as of the beginning of the fiscal year ended June 30, 2019, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated none of these net assets for operating reserves and future program development.

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. 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. There were \$5,631,616 donor restricted net assets as of June 30, 2019.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 GAAP 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 (“IRC”) 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, 2019, there were no cash equivalents.

Investments

The Organization presents its investments in accordance with the FASB 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, 2019

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, 2019, the Organization had \$1,153 in deferred revenue.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 primarily receives funds from the California Department of Education ("CDE"). Revenue limit sources and state revenues received from the CDE are determined based on the Organization's average daily attendance ("ADA") of students and recognized in the period the ADA occurs.

In addition, 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 recognizes federal revenue to the extent that eligible expenditures have been incurred.

Revenue that is restricted is recorded as an increase in net assets without donor restrictions 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 restrictions.

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, the FASB issued ASU 2016-02, *Leases* (Topic 842). Topic 842 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 present value of payments to be made to lessor, on its statement of financial position for all leases greater than 12 months. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases*, which deferred the effective date of Topic 842 for the Organization until fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 31, 2021. Although the full impact of this new guidance 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, 2019

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 was effective for annual financial statements issued for fiscal years beginning after December 14, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organization adopted ASU 2016-14 effective at the beginning of the fiscal year ending June 30, 2019.

Net assets at the beginning of the fiscal year end June 30, 2019 have been reclassified due to the adoption of ASU 2016-14 as follows:

	<u>Before Adoption of ASU 2016-14</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets (restated - Note 15)	\$ 4,086,655	\$ -
Net assets without donor restrictions (restated - Note 15)	-	4,086,655
Temporarily restricted net assets	6,026,155	-
Net assets with donor restrictions	-	6,026,155
	<u>\$ 10,112,810</u>	<u>\$ 10,112,810</u>

3. CASH

Cash at June 30, 2019, consisted of the following:

Cash in banks	<u>\$ 2,087,355</u>
Total cash	<u>\$ 2,087,355</u>

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, 2019, the Organization had \$879,907 in excess of FDIC insured limits.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

4. INVESTMENTS

Investments at June 30, 2019 consisted of the following:

Commercial Paper	\$ 955,127
Total	<u>\$ 955,127</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.

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, 2019, consisted of the following:

	Net Assets without donor restrictions	Net Assets with donor restrictions
Unrealized gain on investments	\$ -	\$ 19,095
Interest and dividends	24,110	16,126
Total investment income	<u>\$ 24,110</u>	<u>\$ 35,221</u>

Investments are held for the maturity of the bonds in December 2020 and are included in net assets with donor restrictions (Note 11).

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019, consisted of the following:

Revenue limit sources:	
State aid apportionments	\$ 124,707
Education protection account	434,672
In-lieu of property taxes	138,647
Federal revenues	230,078
State revenues	722,145
Local revenues:	
Miscellaneous	8,858
Total accounts receivable	<u>\$ 1,659,107</u>

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

6. FIXED ASSETS

Fixed assets at June 30, 2019, consisted of the following:

Improvement of sites	\$ 5,936,242
Equipment	2,443,916
Furniture and fixtures	337,424
Less: accumulated depreciation	<u>(8,004,643)</u>
Total fixed assets, net of accumulated depreciation	<u><u>\$ 712,939</u></u>

During the fiscal year ended June 30, 2019, \$272,709 was charged to depreciation expense.

7. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets at June 30, 2019, consisted of the following:

Rent	\$ 885,457
Insurance	56,804
Miscellaneous	75,085
Total prepaid expenses	<u><u>\$ 1,017,346</u></u>

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, 2019, the balance in prepaid facility lease was \$885,457, which is a current asset included in prepaid expenses.

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. Per the agreement, revenues generated from the billboard advertising are to be used for rent and other facilities related expenses.

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

8. UNCONDITIONAL PROMISE TO GIVE (continued)

This amount is reflected in the financial statements as an unconditional promise to give and as net assets with donor restrictions as of June 30, 2019.

Billboard #1	\$ 2,878,750
Billboard #2	1,627,500
Total unconditional promise to give	<u>\$ 4,506,250</u>

9. ACCRUED EXPENSES

Accrued expenses at June 30, 2019, consisted of the following:

Wages and benefits payable	\$ 587,077
Compensated absences	54,149
Due to grantor government	26,017
Miscellaneous	10,040
Total accrued expenses	<u>\$ 677,283</u>

10. BONDS PAYABLE, NET

On December 9, 2004, the Association of Bay Area Governments (“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). The bonds contained a discount when issued of \$50,000, which is being amortized over the life of the bonds.

Changes in obligations for the fiscal year ended June 30, 2019, are as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Due in</u>
	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>	<u>One Year</u>
Revenue Bonds Payable	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
Total	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>

Bonds payable, net, at June 30, 2019 consisted of the following:

Debt obligations	\$ 1,000,000
Unamortized bond discount	<u>(4,688)</u>
	<u>\$ 995,312</u>

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of unconditional promise to give, investment held for the maturity of the bond, and entitlements received but not expended as of June 30, 2019. At June 30, 2019, the Organization had the following net assets with donor restrictions:

Unconditional promise to give	\$ 4,506,250
Investments	955,127
Low performing student block grant	88,755
California technical initiative grant	13,461
Classified school employee professional development block grant	3,101
Measure N	64,922
Total net assets with donor restrictions	<u>\$ 5,631,616</u>

12. OPERATING LEASES

The Organization leases facilities and office equipment under operating lease agreements expiring at various times through June 2023. Future minimum lease payments consist of the following:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payments</u>
2020	\$ 1,567,880
2021	941,083
2022	583
2023	146
Total future lease payments	<u>\$ 2,509,692</u>

For the fiscal year ended June 30, 2019, sublease rental revenue was \$91,156. 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, 2019, operating lease expense was \$1,553,585.

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").

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

13. EMPLOYEE RETIREMENT SYSTEMS (continued)

Plan Description and Funding Policy

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, 2019, total plan assets are \$197.7 billion, the total actuarial present value of accumulated plan benefits is \$362.4 billion, contributions from all employers totaled \$4.0 billion, and the plan is 62.6% 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, CA 95826 and www.calstrs.com.

Funding Policy

Active plan members are required to contribute 10.20% 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 2018-2019 was 14.43% 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, 2019, were \$1,010,433 and equal 100% of the required contributions for each fiscal year.

14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of its liquidity management, the Organization has a goal to maintain financial assets on hand to meet 1 year of normal operating expenses. The Organization's goal is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization does not have a line of credit available to assist with liquidity management.

The Organization's financial assets available within one year of the Statement of Financial Position date for general expenditures are as follows:

Cash	\$ 2,087,355
Accounts receivable	1,659,107
Total financial assets available within one year	<u>\$ 3,746,462</u>

OAKLAND SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

15. PRIOR PERIOD ADJUSTMENT

Two prior period adjustments were recorded in the amount of \$38,395 and \$56,021 during the fiscal year ended June 30, 2019. A prior period adjustment was recorded during fiscal year 2019 to reduce net assets at June 30, 2018 in the amount of \$38,365 based on the determination of amounts that were recorded as accounts receivable, but were deemed uncollectible. Another prior period adjustment was recorded during fiscal year 2019 to reclassify \$56,021 of net assets with donor restriction to net assets without donor restriction as the net assets were not donor restricted at June 30, 2018. The previously reported net assets as of June 30, 2018 were restated as follows:

	<u>Net Assets without donor restrictions</u>	<u>Net Assets with donor restrictions</u>
Net assets, as previously reported	\$ 4,069,029	\$ 6,082,176
Prior period adjustment	(38,395)	-
Restricted net assets reclassification	56,021	(56,021)
Net assets, restated	<u>\$ 4,086,655</u>	<u>\$ 6,026,155</u>

16. 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.

17. 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 16, 2019, 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, 2019**

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 through 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, 2019, was comprised of the following members:

Name	Office	Term	Term Expiration
Elise Darwish	Chair	3 Years	June 30, 2019
Steven Borg	Vice Chair	3 Years	June 30, 2020
Mike Barr	Treasurer	3 Years	June 30, 2020
Milica Mitrovich	Secretary	3 Years	June 30, 2020
Jonathan Dharmapalan	Member	3 Years	June 30, 2020
Buddy James	Member	3 Years	June 30, 2020
Theresa Mak	Member	3 Years	June 30, 2020
Carol Isen	Member	3 Years	June 30, 2020
Dr. Dianne Woods	Member	3 Years	June 30, 2019

Administration

Name	Position
Brian Kohn	Executive Director
Kimberly Palmore	Accounting Manager

OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Fiscal Year End June 30, 2019

	<u>Second Period Report</u>	<u>Annual Report</u>
Grades 4 - 6	89.24	89.04
Grades 7 - 8	203.88	203.93
Grades 9 -12	<u>411.17</u>	<u>407.91</u>
Total	<u><u>704.29</u></u>	<u><u>700.88</u></u>

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

**OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year End June 30, 2019**

<u>Grade Level</u>	<u>2018-2019 Minutes Requirements</u>	<u>2018-2019 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Grade 6	54,000	63,530	175	In Compliance
Grade 7	54,000	63,530	175	In Compliance
Grade 8	54,000	63,530	175	In Compliance
Grade 9	64,800	70,190	175	In Compliance
Grade 10	64,800	70,190	175	In Compliance
Grade 11	64,800	70,190	175	In Compliance
Grade 12	64,800	70,190	175	In Compliance

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, 2019

	Charter School
June 30, 2019, Charter School Unaudited Actuals Financial Report -- Alternative Form, Ending Fund Balance	<u>\$ 8,979,984</u>
Adjustments and reclassification:	
Increasing (decreasing) the fund balance to net assets:	
Prior period adjustment	(38,395)
Net asset adjustment reversal	(26,017)
Accounts receivable understatement	142,546
Prepaid expenditures understatement	<u>104,227</u>
Net adjustments and reclassifications	<u>182,361</u>
June 30, 2019, audited financial statements, net assets	<u><u>\$ 9,162,345</u></u>

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, 2019, 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 16, 2019.

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 16, 2019

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 *2018-19 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, 2019. 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, *2018-19 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
California Clean Energy Jobs Act	Yes
After/Before 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 Attendance	Not Applicable
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

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 state programs for the fiscal year ended June 30, 2019.

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 the *2018-19 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

San Diego, California
December 16, 2019

FINDINGS AND RECOMMENDATIONS

OAKLAND SCHOOL FOR THE ARTS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2019

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 No

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

Noncompliance material to financial statements noted? Yes 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:

CFDA Number(s) Name of Federal Program or Cluster

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, 2019

A. Summary of Auditor's Results (continued)

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes No

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

Type of auditor's report issued on compliance
for state programs:

Unmodified

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

None

OAKLAND SCHOOL FOR THE ARTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2019

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