

# **Oakland School for the Arts #0340**

Financial Statements and  
Supplementary Information

June 30, 2023

# Oakland School for the Arts

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Table of Contents

June 30, 2023

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8
<b>Supplementary Information</b>	
Organization	18
Schedule of Average Daily Attendance	19
Schedule of Instructional Time	20
Reconciliation of Charter School Unaudited Actuals Financial Report – Alternative Form with Audited Financial Statements	21
<b>Other Independent Auditors' Report</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government         Auditing Standards</i>	22
Report on State Compliance and on Internal Control Over Compliance for State Programs	24
<b>Findings and Recommendations</b>	
Schedule of Audit Findings and Questioned Costs	28
Summary Schedule of Prior Audit Findings	30

## Independent Auditors' Report

To the Board of Directors of  
Oakland School for the Arts

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the financial statements of Oakland School for the Arts (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

#### **Change in Accounting Principle**

As described in Note 2 to the financial statements, on July 1, 2022, the Organization changed its method of accounting for leases due to the adoption of Accounting Standards Codification (Topic 842), *Leases*. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Organization, Schedule of Average Daily Attendance, Schedule of Instructional Time, and Reconciliation of Charter School Unaudited Actuals Financial Report – Alternative Form with Audited Financial Statements are presented for purposes of additional analysis and are 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 January 30, 2024 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Baker Tilly US, LLP*

San Diego, California  
January 30, 2024

# Oakland School for the Arts

## Statement of Financial Position

June 30, 2023

### Assets

#### Current Assets

Cash and cash equivalents	\$ 2,029,488
Accounts receivable	2,855,774
Prepaid expenses and other assets	316,994
Unconditional promise to give, current portion	<u>525,000</u>

Total current assets 5,727,256

#### Fixed Assets, Net

179,420

#### Right-of-Use Assets

2,183,101

#### Deposits

66,839

#### Unconditional Promise to Give, Less Current Portion

1,877,411

Total assets \$ 10,034,027

### Liabilities and Net Assets

#### Current Liabilities

Accounts payable	\$ 226,576
Accrued expenses	983,068
Due to grantor	1,337,937
Deferred revenue	660,446
Operating lease liability, current portion	866,501
Note payable, current portion	<u>3,302</u>

Total current liabilities 4,077,830

#### Long-Term Liabilities

Operating lease liability, less current portion	1,389,701
Note payable, less current portion	<u>496,698</u>

Total long-term liabilities 1,886,399

Total liabilities 5,964,229

#### Net Assets

Net assets with donor restrictions	2,545,888
Net assets without donor restrictions, undesignated	<u>1,523,910</u>

Total net assets 4,069,798

Total liabilities and net assets \$ 10,034,027

See notes to financial statements

# Oakland School for the Arts

## Statement of Activities

Year Ended June 30, 2023

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
<b>Revenues and Support</b>			
Revenue limit sources:			
State aid apportionments	\$ 5,021,815	\$ -	\$ 5,021,815
Education protection account	653,340	-	653,340
In-lieu of property taxes	2,374,082	-	2,374,082
Federal revenues	435,349	23,379	458,728
State revenues	1,972,763	-	1,972,763
Local revenues:			
Donations	855,718	-	855,718
Parcel taxes	369,756	-	369,756
Other local revenue	614,410	-	614,410
Total revenues before transfers	12,297,233	23,379	12,320,612
Net assets released from restrictions	543,328	(543,328)	-
Total revenues and support	12,840,561	(519,949)	12,320,612
<b>Expenses</b>			
Program services:			
Education	10,120,961	-	10,120,961
Support services:			
Management and general	2,799,323	-	2,799,323
Other services:			
Fundraising	593,833	-	593,833
Total expenses	13,514,117	-	13,514,117
Change in net assets	(673,556)	(519,949)	(1,193,505)
<b>Net Assets, Beginning</b>	2,197,466	3,065,837	5,263,303
<b>Net Assets, Ending</b>	\$ 1,523,910	\$ 2,545,888	\$ 4,069,798

See notes to financial statements

## Oakland School for the Arts

### Statement of Functional Expenses

Year Ended June 30, 2023

	<b>Program Services</b>	<b>Support Services</b>	<b>Other Services</b>	
	<b>Education</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Certificated salaries	\$ 4,809,906	\$ 840,426	\$ 56,073	\$ 5,706,405
Classified salaries	288,294	863,324	273,511	1,425,129
Employee benefits	1,806,677	265,661	61,764	2,134,102
Books and supplies	169,278	12,739	2,464	184,481
Travel and conferences	6,559	903	175	7,637
Dues and memberships	14,384	4,807	930	20,121
Insurance	55,634	18,592	3,597	77,823
Operation and housekeeping services	332,771	111,208	21,513	465,492
Rental, leases, repairs and noncapitalized improvements	1,258,767	368,720	71,328	1,698,815
Professional/consulting services and operating expenditures	1,240,965	293,421	56,761	1,591,147
Fundraising expense	-	-	41,941	41,941
Interest expense	1,206	403	78	1,687
Communications	27,070	9,047	1,750	37,867
District oversight fee	79,311	-	-	79,311
Depreciation	30,139	10,072	1,948	42,159
<b>Total expenses</b>	<b>\$ 10,120,961</b>	<b>\$ 2,799,323</b>	<b>\$ 593,833</b>	<b>\$ 13,514,117</b>

See notes to financial statements



## Oakland School for the Arts

Statement of Cash Flows  
Year Ended June 30, 2023

### Cash Flows From Operating Activities

Change in net assets	\$ (1,193,505)
Adjustments to reconcile change in net assets to net cash used in operations:	
Depreciation	42,159
Change in operating assets and liabilities:	
Accounts receivable	(570,171)
Prepaid expenses and other assets	(189,041)
Deposits	(1,400)
Right-of-use assets, net	73,101
Unconditional promise to give	525,000
Accounts payable	(63,756)
Accrued expenses	37,761
Due to grantor	805,674
Deferred revenue	472,387
	<u>                    </u>
Net cash used in operating activities	<u>(61,791)</u>

### Cash Flows From Investing Activities

Purchase of property and equipment	<u>(139,012)</u>
Net cash used in investing activities	<u>(139,012)</u>
Net decrease in cash and cash equivalents	(200,803)

### Cash and Cash Equivalents, Beginning

2,230,291

### Cash and Cash Equivalents, Ending

\$ 2,029,488

### Supplemental Disclosure of Cash Flow Information

Cash paid for interest	<u><u>\$ 1,687</u></u>
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See notes to financial statements

# Oakland School for the Arts

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Notes to Financial Statements

June 30, 2023

## 1. Organization and Mission

Oakland School for the Arts (the Organization) is a nonprofit 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, 2025. 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 of their choice.

The Organization commenced operations during the 2002-2003 fiscal year and currently serves approximately 756 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*, 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.

**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 was \$2,545,888 in net assets with donor restrictions as of June 30, 2023 (see Note 10).

### 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.

# Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

## 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 and Cash Equivalents

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, 2023, there was \$1,139,427 of cash equivalents.

## Accounts Receivable

Accounts receivable are recorded based on the amount expected to be collected from the federal and state government agencies. The amount recorded is based on apportionment schedules issued by the California Department of Education throughout the fiscal year. Management believes that collections of accounts receivable is reasonably assured based on the nature of the receivable coming from government agencies. As such, no allowance for doubtful accounts has been provided.

## Fixed Assets

Fixed assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives of five 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, 2023, the Organization had \$660,446 deferred revenue related to the grants as shown below:

Art, Music, and Instructional Materials Discretionary Block Grant	\$	242,739
Educator Effectiveness		22,109
Elementary and Secondary School Emergency Relief		14,870
Expanded Learning Opportunities Grant		6,412
Expanded Learning Opportunities Program		2,303
Ethnic Studies Block Grant		11,326
Kitchen Infrastructure and Training		128,713
Learning Recovery Emergency Block Grant		<u>231,974</u>
Total funds received but not expended	\$	<u>660,446</u>

# Oakland School for the Arts

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Notes to Financial Statements

June 30, 2023

## 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 may be 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.

## Contributions and Grants

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 from contributions and grant income is evaluated under ASU 2018-08 and is accounted for as nonreciprocal transactions. Unconditional contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without restrictions. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is when a stipulated time restrictions ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without 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.

## Leases

Effective July 1, 2022, the Organization adopted FASB Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Organization's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncancelable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Organization recorded operating lease right-of-use assets and lease liabilities of \$2,954,645 and \$2,954,645, respectively.

# Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected:

- The package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.
- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Organization's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- The Organization has elected the policy not to separate lease and nonlease components for all asset classes.
- When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.
- The Organization elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures for Topic 842 are contained in Note 11.

### 3. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2023 consisted of the following:

Cash in banks	\$	890,061
Cash equivalents		<u>1,139,427</u>
Total cash and cash equivalents	\$	<u>2,029,488</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.

### 4. Accounts Receivable

Accounts receivable as of June 30, 2023, consisted of the following:

Revenue limit sources:		
State aid	\$	2,002,603
Education protection account		118,857
Federal revenues		372,113
State revenues		316,347
Local revenues:		
Measure G1		33,340
Miscellaneous		<u>12,514</u>
Total accounts receivable	\$	<u>2,855,774</u>

## Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

### 5. Fixed Assets

Fixed assets as of June 30, 2023, consisted of the following:

Building and leasehold improvements	\$	6,063,899
Furniture, fixture and equipment		2,811,121
Construction in progress		2,500
Less accumulated depreciation		<u>(8,698,100)</u>
Total fixed assets, net	\$	<u>179,420</u>

During the fiscal year ended June 30, 2023, \$42,159 was charged to depreciation expense.

### 6. Prepaid Expenses and Other Assets

Prepaid expenses and other assets at June 30, 2023, consisted of the following:

Rent	\$	220,550
Insurance		66,031
Memberships		24,085
Operations		<u>6,328</u>
Total prepaid expenses and other assets	\$	<u>316,994</u>

### 7. 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, revenue from 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. There were no revenues recorded under these agreements for the fiscal year ended June 30, 2023.

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, 2023.

Current:		
BillBoard 1	\$	367,500
BillBoard 2		<u>157,500</u>
		525,000
Noncurrent		
BillBoard 1		1,037,411
BillBoard 2		<u>840,000</u>
		<u>1,877,411</u>
Total unconditional promise to give	\$	<u>2,402,411</u>

## Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

### 8. Accrued Expenses

Accrued expenses at June 30, 2023, consisted of the following:

Wages and benefits payable	\$	889,732
Compensated absences		77,901
Miscellaneous		15,435
		<u>15,435</u>
Total accrued expenses	\$	<u>983,068</u>

### 9. Note Payable

On March 18, 2022, the US Small Business Administration (SBA) issued a loan in the form of a promissory note to the Organization. The purpose of the loan was to help alleviate economic impact caused by the COVID-19 pandemic. The loan amount of \$500,000 has an annual interest rate of 2.75% and matures 30 years from the date of issuance. Monthly installment payments of principal and interest are \$2,244 and begin 24 months from the date of the promissory note. As of June 30, 2023, the outstanding balance on the note was \$500,000.

As of June 30, 2023, future minimum principal payments are summarized as follows:

Years ending June 30:		
2024	\$	3,302
2025		13,437
2026		13,812
2027		14,196
2028		14,595
Thereafter		440,658
		<u>440,658</u>
Total	\$	<u>500,000</u>

### 10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of unconditional promise to give, and entitlements received but not expended as of June 30, 2023. At June 30, 2023, the Organization had the following net assets with donor restrictions:

Unconditional promise to give	\$	2,402,411
Other donor restricted net assets		94,081
California Clean Energy Jobs Act - Prop 39		26,017
National School Lunch Program Supply Chain		23,379
		<u>23,379</u>
Total net assets with donor restrictions	\$	<u>2,545,888</u>

### 11. Operating Leases

Leases during the year ended June 30, 2023, consist of two educational facilities in which the Organization operates, and equipment located in Oakland, California. There are no lease terms with residual value guarantees, or restrictions. The leases do not contain an option to extend. One educational facility lease has an annual increase of approximately 3.00% and expiration in June 2025. The other educational facility lease had no annual increase and expiration in June 2026.

## Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses a risk-free rate based on U.S. Treasury notes for similar terms.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;
- Determined whether contracts contain embedded leases;
- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases;

The Organization does not have any material leasing transactions with related parties.

The following table summarizes the lease right-of-use assets and lease liabilities as of June 30, 2023:

Right-of-use assets:	
Operating leases	<u>\$ 2,183,101</u>
Lease liabilities:	
Current operating lease liabilities	866,501
Long-term operating lease liabilities	<u>1,389,701</u>
Total lease liabilities	<u>\$ 2,256,202</u>

Below is a summary of expenses incurred pertaining to leases during the year ended June 30, 2023:

Operating lease expense	<u>\$ 1,078,452</u>
Weighted average remaining lease term (in years):	
Operating leases	2.70
Weighted average discount rate:	
Operating leases	4.00 %



## Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

The table below summarizes the Organization's scheduled future minimum lease payments for years ending after June 30, 2023:

Years ending:	
2024	\$ 937,032
2025	873,338
2026	<u>564,300</u>
Total lease payments	2,374,670
Less present value discount	<u>(118,468)</u>
Total lease liabilities	2,256,202
Less current portion	<u>(866,501)</u>
Total	<u>\$ 1,389,701</u>

The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of the lease liabilities:	
Operating cash flows from operating lease	<u>\$ 864,018</u>
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	<u>\$ 2,954,645</u>

## 12. 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).

### Plan Description and Funding Policy

#### STRS

##### Plan Description

The Organization contributes to STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available actuarial valuation report as of June 30, 2022, total plan net assets are \$300 billion, the total actuarial present value of projected plan benefits is \$434.2 billion, contributions from all employers totaled \$6.5 billion and the plan is 74.4% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and [www.calstrs.com](http://www.calstrs.com).

# Oakland School for the Arts

Notes to Financial Statements

June 30, 2023

## Funding Policy

Active plan members are required to contribute 10.25% 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 2022-2023 was 19.10% 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, 2023, were \$1,022,102 and equal 100% of the required contributions for the year.

## 13. 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 one 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 and cash equivalents	\$	2,029,488
Accounts receivable		2,855,774
Less net assets with donor restriction included in cash and accounts receivable		<u>(143,477)</u>
Total financial assets available within one year	\$	<u>4,741,785</u>

## 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.

### Legal

The Organization may be involved from time to time in various other claims, lawsuits, disputes with third parties and actions incidental in the normal course of operations; however, the Organization is currently not involved in any such litigation except as discussed below.

The Organization received a formal claim from a former employee that the Organization failed to enroll the former employee in STRS, and as a result STRS has requested the Organization review its files to ensure any eligible employees are properly enrolled in STRS. Management believes that exposure to the Organization cannot be accurately estimated at this time.

The Organization received a civil Complaint alleging bully and discrimination of two students following a student-led walkout. The Organization vigorously denies the claim and has tendered the matter to its insurance carrier, which has accepted the defense of the claim. Any exposure should be limited to the Organization's insurance deductible.

## 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 January 30, 2024, which is the date the financial statements were available to be issued. Management has determined, except as noted below, that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

Subsequent to year end the Organization entered into a lease agreement commencing in August 2023 through August 2028, with monthly lease payments of \$25,590 with annual increases of 3.00% per annum. Additionally, the Organization entered into a Line of Credit Agreement effective November 2023 in the amount of \$750,000 with Community Bank of the Bay.

## Oakland School for the Arts

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Organization  
June 30, 2023

Oakland School for the Arts is a Grade 6 through Grade 12 Charter School and was granted its charter renewal by Oakland Unified School District through June 30, 2025, pursuant to the terms of the Charter School Act of 1992, as amended.

The Board of Directors for the fiscal year ended June 30, 2023, was comprised of the following members:

<b>Name</b>	<b>Office</b>	<b>Term</b>	<b>Term Expiration</b>
Josefina Alvarado Mena	Chair	3 years	June 30, 2023
Dewayne Walton	Vice Chair	3 years	June 30, 2023
Wei-Ling Huber	Secretary	3 years	June 30, 2023
Amy Omand	Treasurer	2 years	June 30, 2025
Jason Reimann	Member	3 years	June 30, 2023
Safia Fasah	Member	3 years	June 30, 2024

### Administration

<b>Name</b>	<b>Position</b>
Michael Oznowicz	Executive Director
Beth Brenner-Josef	Finance Director

## Oakland School for the Arts

Schedule of Average Daily Attendance  
June 30, 2023

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	<u>Second Period Report</u>	<u>Annual Report</u>
Grade 6	110.16	110.22
Grades 7 - 8	209.55	209.57
Grades 9 - 12	<u>394.67</u>	<u>392.33</u>
Total	<u>714.38</u>	<u>712.12</u>

The Organization is 100% classroom-based and generates no Average Daily Attendance from an independent study program.

## Oakland School for the Arts

Schedule of Instructional Time  
Year Ended June 30, 2023

<b>Grade Level</b>	<b>Actual 2022-2023 Minutes Requirements</b>	<b>Actual 2022-2023 Minutes</b>	<b>Number of Actual Days Traditional</b>	<b>Status</b>
Grade 6	54,000	61,266	180	In compliance
Grade 7	54,000	61,266	180	In compliance
Grade 8	54,000	61,266	180	In compliance
Grade 9	64,800	70,295	180	In compliance
Grade 10	64,800	70,295	180	In compliance
Grade 11	64,800	70,295	180	In compliance
Grade 12	64,800	70,295	180	In compliance

## Oakland School for the Arts

Reconciliation of Unaudited Actuals  
Year Ended June 30, 2023

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<b>June 30, 2023, Charter School Unaudited Actual Financial Report - Alternative Form, Ending Fund Balance</b>	<u>\$ 4,069,799</u>
<b>Adjustments and reclassifications:</b>	
Increasing (decreasing) the fund balance:	
Right-of-use assets	(1,180,395)
Operating lease liabilities	1,180,395
Rounding	<u>(1)</u>
Net adjustments and reclassifications	<u>(1)</u>
<b>June 30, 2023, Audited Financial Statement Net Assets</b>	<u><u>\$ 4,069,798</u></u>

**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**

Independent Auditors' Report

To the Board of Directors of  
Oakland School for the Arts

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, 2023, 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 January 30, 2024.

**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.

Handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

San Diego, California  
January 30, 2024

## **Report on State Compliance and on Internal Control Over Compliance for State Programs**

### Independent Auditors' Report

To the Board of Directors of  
Oakland School for the Arts

#### **Report on Compliance**

##### ***Qualified and Unmodified Opinions***

We have audited the Oakland School for the Arts' (the Organization) compliance with the requirements specified in the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the Organization's state program requirements identified below for the year ended June 30, 2023.

##### ***Qualified Opinions on Immunization and Mode of Instruction***

In our opinion, except for the noncompliance described in the “Matters Giving Rise to Qualified Opinion on Immunization and Mode of Instruction” section of our report, the Organization complied, in all material respects, with the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023.

##### ***Unmodified Opinion on the Other State Programs***

In our opinion, the Organization complied, in all material respects, with the laws and regulations of the other state programs noted in the table below for the year ended June 30, 2023.

#### **Basis for Qualified and Unqualified Opinions**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

##### ***Matters Giving Rise to Qualified Opinion on Immunization and Mode of Instruction***

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding Immunization as described in finding numbers 2023-001 and 2023-002.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

### Responsibilities of Management for Compliance

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

### Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances;
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test *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	Not Applicable
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	Not Applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant	Yes

Description	Procedures Performed
Career Technical Education Incentive Grant	Yes
Transitional Kindergarten	Not Applicable
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	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.

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

### Report on Internal Control over Compliance

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

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

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

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly US, LLP*

San Diego, California  
January 30, 2024

# Oakland School for the Arts

Schedule of Audit Findings and Questioned Costs  
Year Ended June 30, 2023

## Section I - Summary of Auditors' Results

### Financial Statements

Type report the auditor issued on whether the financial statements audited were in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>          </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>  X  </u> none reported

Noncompliance material to financial statements noted?            yes   X   no

### Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u>          </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>  X  </u> none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?            yes   X   no

Identification of major federal programs:

<u>Assistance Listing Number</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

### State Awards

Internal control over major state programs:

Material weakness(es) identified?	<u>          </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>  X  </u> none reported

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

## Section II - Financial Statement Findings

None.

# Oakland School for the Arts

Schedule of Audit Findings and Questioned Costs  
Year Ended June 30, 2023

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## Section III - Federal Award Findings and Questioned Costs

None

## Section IV - State Award Findings and Questioned Costs

### Finding 2023-001

40000 State Compliance - Immunizations

(1) Criteria

Pupils are required to have two varicella vaccine doses and one Tdap dose as required by Title 17, California Code of Regulations Section 6025 (Title 17) prior to admission into 7<sup>th</sup> or 8<sup>th</sup> Grade or have a current medical exemption from varicella or Tdap vaccine on file.

(2) Condition

Three pupils did not meet the vaccination requirements as required under Title 17.

(3) Effect

The pupils' attendance for days that they attended without the appropriate vaccinations cannot be included in the Average Daily Attendance calculations.

(4) Cause

The pupils did not receive the required vaccinations, and the Organization did not recognize the error.

(5) Effect on ADA

The pupils' attendance should have been excluded, which resulted in a 3 ADA error in P-2 and a 3 ADA error in the Annual calculation. The estimated effect on ADA based on the LCFF Derived Value of ADA by Grade Span for School District and Charter Schools Based on the 2022-23 Second Principal (P-2) Apportionment (August 2023) using the Grade 7 derived value of \$10,054 is \$30,162.

(6) Recommendation

We recommend the Organization establish a system to track and monitor immunization records to ensure that students receive and document the appropriate vaccinations in a timely manner.

(7) Organization's Corrective Action Plan

As part of the overall enrollment process, parents will need to submit proof of vaccination prior to the start of the new school year as part of the enrollment forms. These will be submitted via PowerSchool.

The Organization has created a new position to manage the enrollment processes. The Organization's new Director of Enrollment will work with the Organization's Student Records coordinator to audit all documentation submitted by families in order to ensure the Organization is in full compliance with all applicable federal, state and local regulations.

# Oakland School for the Arts

Schedule of Audit Findings and Questioned Costs  
Year Ended June 30, 2023

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## Finding 2023-002

40000 State Compliance – Mode of Instruction

(1) Criteria

Pupils are required to be engaged in educational activities required of those pupils and the pupils are under the immediate supervision and control of an employee of the Organization who possessed a valid teaching certification in accordance with *Education Code* Section 47605(l) or 47605.4.

(1) Condition

One teacher did not possess a valid teaching certification in accordance with *Education Code* Section 47605(l) or 47605.4.

(2) Effect

A penalty will be derived in accordance with *Education Code* Section 45037(b) and is approximately \$16,098 based on the number of days of instruction provided by the teacher without a valid certification which equated to 0.2000% of total days of instruction multiplied by the Revenue Limit Sources totaling \$8,049,237.

(3) Cause

The Organization did not sufficiently complete the application process to renew the expired credential of the teacher.

(4) Effect on ADA

No effect on ADA.

(5) Recommendation

We recommend the Organization establish a system to validate each teacher's credential on an annual basis prior to the start of the school year, and to validate teachers hired during the school year.

(6) Organization's Corrective Action Plan

The Organization will be instigating new systems to ensure teacher compliance. Enhanced coordination between the Principal, Enrollment Coordinator and Human Resources staff will set in place a two-tiered process of verification. All credential documents will be properly filed and tracked onsite as well as through our HRIS system (Paycom).

## **Summary of Prior Year Findings**

None.

# Oakland School for the Arts

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2023

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<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if not Implemented</u>
None	N/A	N/A