

BLUE OAK CHARTER SCHOOL

**Independent Auditor's Report and Financial Statements
For the Year Ended
June 30, 2017**

BLUE OAK CHARTER SCHOOL

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Blue Oak Charter School
Chico, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Blue Oak Charter School (the School), a California non-profit public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

Board of Directors
Blue Oak Charter School

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2017, 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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and 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 a report dated November 30, 2017 on our consideration of the School'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 School'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 School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP
Glendora, CA
November 30, 2017

BLUE OAK CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

CURRENT ASSETS:

Accounts receivable - federal and state	\$ 410,248
Accounts receivable - other	429
Prepaid expenses and other assets	56,022
Total current assets	<u>466,699</u>

LONG-TERM ASSETS:

Property, plant and equipment, net	524,942
Deposits	28,000
Total long-term assets	<u>552,942</u>
Total assets	<u><u>\$ 1,019,641</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 369,249
Total current liabilities	<u>369,249</u>

NET ASSETS:

Unrestricted	618,128
Temporarily restricted	32,264
Total net assets	<u>650,392</u>
Total liabilities and net assets	<u><u>\$ 1,019,641</u></u>

The accompanying notes are an integral part of these financial statements.

BLUE OAK CHARTER SCHOOL

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES:			
State revenue:			
State aid	\$ 2,050,243	\$ -	\$ 2,050,243
Other state revenue	647,426	-	647,426
Federal revenue:			
Grants and entitlements	197,516	-	197,516
Local revenue:			
In-lieu property tax revenue	851,987	-	851,987
Contributions	13,214	-	13,214
Other revenue	89,377	-	89,377
Total revenues	<u>3,849,763</u>	<u>-</u>	<u>3,849,763</u>
EXPENSES:			
Program services	3,704,586	-	3,704,586
Management and general	399,612	-	399,612
Total expenses	<u>4,104,198</u>	<u>-</u>	<u>4,104,198</u>
Change in net assets	(254,435)	-	(254,435)
Beginning net assets	<u>872,563</u>	<u>32,264</u>	<u>904,827</u>
Ending net assets	<u>\$ 618,128</u>	<u>\$ 32,264</u>	<u>\$ 650,392</u>

The accompanying notes are an integral part of these financial statements.

BLUE OAK CHARTER SCHOOL

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017**

CASH FLOWS from OPERATING ACTIVITIES:

Change in net assets	\$ (254,435)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	158,359
Change in operating assets:	
Accounts receivable - federal and state	125,748
Accounts receivable - other	(429)
Prepaid expenses and other assets	(33,867)
Change in operating liabilities:	
Accounts payable and accrued liabilities	<u>176,107</u>
Net cash flows from operating activities	<u>171,483</u>

CASH FLOWS from INVESTING ACTIVITIES:

Purchases of property, plant and equipment	<u>(212,422)</u>
Net cash flows from investing activities	<u>(212,422)</u>
Net change in cash and cash equivalents	(40,939)
Cash and cash equivalents at the beginning of the year	<u>40,939</u>
Cash and cash equivalents at the end of the year	<u><u>\$ -</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest during the fiscal year	<u><u>\$ 5,386</u></u>
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The accompanying notes are an integral part of these financial statements.

BLUE OAK CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services	Management and General	Total Expenses
Salaries and wages	\$ 1,691,906	\$ 109,527	\$ 1,801,433
Pension expense	192,598	21,445	214,043
Other employee benefits	193,411	49,883	243,294
Payroll taxes	57,300	14,777	72,077
Management fees	-	29,422	29,422
Legal expenses	-	31,613	31,613
Accounting expenses	-	6,100	6,100
Instructional materials	190,453	-	190,453
Other fees for services	412,933	70,297	483,230
Advertising and promotion expenses	-	6,735	6,735
Office expenses	49,670	-	49,670
Occupancy expenses	640,695	-	640,695
Travel expenses	7,251	-	7,251
Interest expense	-	5,386	5,386
Depreciation expense	158,359	-	158,359
Insurance expense	-	51,611	51,611
Other expenses	78,065	2,816	80,881
	<u>\$ 3,704,586</u>	<u>\$ 399,612</u>	<u>\$ 4,104,198</u>

The accompanying notes are an integral part of these financial statements.

BLUE OAK CHARTER SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The School is a not-for-profit benefit corporation under the laws of the State of California for the purpose of managing and operating public charter schools located in Chico. The School is economically dependent on state and federal funding.

The charter may be revoked by the Chico Unified School District for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

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

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

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

Functional Allocation of Expenses – Costs of providing the School's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

Net Asset Classes – The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the School are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School has \$32,264 temporarily restricted net assets as of June 30, 2017 representing unspent Educator Effectiveness funding.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

BLUE OAK CHARTER SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receivables – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2017. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

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

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset.

Compensated Absences – The School does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2017.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

BLUE OAK CHARTER SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes – The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The School has evaluated subsequent events through November 30, 2017, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts may exceed the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment as of June 30, 2017 are as follow:

Building and site improvements	\$ 1,141,931
Furniture, fixtures, equipment	<u>41,592</u>
	1,183,523
Less accumulated depreciation	<u>(658,581)</u>
Property, plant and equipment, net	<u>\$ 524,942</u>

Depreciation expense was \$158,359 for the year ended June 30, 2017.

NOTE 4: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the State of California.

BLUE OAK CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

NOTE 4: EMPLOYEE RETIREMENT

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and state contribution rates are set by the California Legislature, and (c) if the School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from this multi-employer plan.

State Teachers' Retirement System (STRS)

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-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, 2016, total plan net assets are \$189 billion, the total actuarial present value of accumulated plan benefits is \$333 billion, contributions from all employers totaled \$3.4 billion, and the plan is 63.7% funded. The School 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 hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% of their salary. The School 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. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for the year ended June 30, 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

BLUE OAK CHARTER SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 4: EMPLOYEE RETIREMENT

The School's contributions to STRS are as follows:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2015	\$ 99,316	100%
2016	\$ 121,775	100%
2017	\$ 141,567	100%

Public Employees' Retirement System (PERS)

Plan Description

The School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by CalPERS. Plan information for PERS is not publicly available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2016, the School Employer Pool total plan assets are \$62.6 billion, the total pension liability is \$75.7 billion, contributions from all employers totaled \$1.4 billion, and the plan is 73.9% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the CalPERS' annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and www.calpers.ca.gov.

Funding Policy

Active plan members are required to contribute 7.0% of their salary while new members after January 1, 2013 are required to contribute 6.0% of their salary. The School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for year ended June 30, 2017 was 13.888%. The contribution requirements of the plan members are established and may be amended by State statute.

BLUE OAK CHARTER SCHOOL

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017**

NOTE 4: EMPLOYEE RETIREMENT

Contributions to PERS

The School's contributions to PERS for each of the last three years are as follows:

Year Ended <u>June 30,</u>	Required <u>Contribution</u>	Percent <u>Contributed</u>
2015	\$ 43,340	100%
2016	\$ 63,714	100%
2017	\$ 72,476	100%

NOTE 5: OPERATING LEASES

The School leases its facilities under a lease agreement where the lease expires in September of 2019. Lease expense under these agreements for the year ended June 30, 2017 was \$539,520.

Future minimum lease payments are as follows:

Year Ended <u>June 30,</u>	
2018	\$ 539,520
2019	539,520
2020	<u>89,920</u>
Total	<u>\$ 1,168,960</u>

NOTE 6: CONTINGENCIES

The School has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies.

SUPPLEMENTARY INFORMATION

BLUE OAK CHARTER SCHOOL

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2017**

The School was established in 2001, when it was granted its charter through Chico Unified School District (the District) and its charter school status from the California Department of Education. The charter may be revoked by the District for material violations of the charter, failure to meet or make progress toward student outcomes, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

The charter school number is: 0415

The Board of Directors and the Administrators as of June 30, 2017 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>2-Year Term Expires</u>
Rebekah Casey	Board Chair	June 2017
Pamela Boeger	Community Representative	June 2016
Susan Johnson	Community Representative	June 2017
Lloyd Dowell	Community Representative	June 2016
Gregor Krause	Community Representative	June 2016
Brian Lindaman	Parent Representative (Clerk)	June 2016
Jonathan Clark	Parent Representative	June 2017

ADMINISTRATORS

The accompanying notes are an integral part of these financial statements.

BLUE OAK CHARTER SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2017

	Instructional Minutes		Traditional Instructional Days	Status
	Requirement	Actual		
Kindergarten	36,000	48,600	180	In compliance
Grade 1	50,400	51,905	180	In compliance
Grade 2	50,400	51,905	180	In compliance
Grade 3	50,400	51,905	180	In compliance
Grade 4	54,000	54,685	180	In compliance
Grade 5	54,000	54,685	180	In compliance
Grade 6	54,000	55,915	180	In compliance
Grade 7	54,000	55,915	180	In compliance
Grade 8	54,000	55,915	180	In compliance

See independent auditor's report and the notes to the supplementary information.

BLUE OAK CHARTER SCHOOL

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2017**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	Classroom		Classroom	
	<u>Based</u>	<u>Total</u>	<u>Based</u>	<u>Total</u>
Grades TK / K-3	163.05	166.05	160.85	163.43
Grades 4-6	135.19	136.41	134.62	135.62
Grades 7-8	<u>60.07</u>	<u>60.50</u>	<u>60.18</u>	<u>60.53</u>
ADA Totals	<u><u>358.31</u></u>	<u><u>362.96</u></u>	<u><u>355.65</u></u>	<u><u>359.58</u></u>

See independent auditor's report and the notes to the supplementary information.

BLUE OAK CHARTER SCHOOL
RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

There were no adjustments or reclassifications for the year ended June 30, 2017.

See independent auditor's report and the notes to the supplementary information.

BLUE OAK CHARTER SCHOOL

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Instructional Time

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

Schedule of Average Daily Attendance

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

Reconciliation of Annual Financial Report with Audited Financial Statements

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

**INDEPENDENT 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
Blue Oak Charter School
Chico, CA

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 Blue Oak Charter School (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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.

**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***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, CA

November 30, 2017

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Directors
 Blue Oak Charter School
 Chico, CA

We have audited Blue Oak Charter School’s (the School) compliance with the types of compliance requirements described in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2017. The School’s State compliance requirements are identified in the table below.

Management’s Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor’s Responsibility

Our responsibility is to express an opinion on the School’s compliance based on our audit of the types of compliance requirements referred to below. 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 *2016-2017 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 specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the School’s compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the School’s compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	No ¹
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Not applicable

¹There were no expenditures of Educator Effectiveness funds during the year ended June 30, 2017

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2017.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, CA

November 30, 2017

BLUE OAK CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

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

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

There were no findings and questioned costs related to the basic financial statements or state compliance for the year ended June 30, 2017.

BLUE OAK CHARTER SCHOOL

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

FINANCIAL STATEMENT FINDINGS

2016-001 Credit Card Purchases

30000

Criteria: Credit card policies should be followed and monitored and supporting documentation should be maintained for all credit card purchases. Additionally, the policies should include a person at a higher level approving the Executive Director's credit card purchases.

Condition: Reviewed credit card statements for the fiscal year and found that they were missing receipts or other supporting documentation. In addition, there was no additional review on the Executive Director's purchases.

Effect: Credit card purchases could be fraudulent and cause the financial statements to be materially misstated.

Cause: Controls were being circumvented by the Executive Director and there was little to no oversight for credit card purchases.

Questioned Costs: Total credit card purchases for the year ended June 30, 2016 was \$138,790.

Recommendation: We recommend that a written credit card usage policy be developed and given to all employees with credit cards. The policy should include procedures to ensure backup documentation (detailed receipts) be submitted, reviewed, and approved prior to the payment of credit card statements. Additionally, it is recommended that the board treasurer or a member of the finance committee review all Executive Director's credit card purchases. If fraudulent purchases are suspected, we also recommend that an investigation be made to determine potential loss and to help determine the next steps.

Status: Implemented.

2016-002 Child Nutrition Program Meal Counts & Reimbursements

30000, 50000

Criteria: Meals should be served to eligible students and must be supported by accurate meal counts and records indicating the number of meals served by category and type.

Condition: After performing extended steps over the child nutrition program and interviewing individuals involved in the program we found that there were no controls over accurately reporting counts as the person submitting the reimbursement forms was manipulating the counts in the meal system. After testing a sample of claim forms it was found that the count information in the system did not agree to the claim forms. Additionally, the information could not be relied upon due to a lack of audit trail within the system itself.

BLUE OAK CHARTER SCHOOL

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

2016-002 Child Nutrition Program Meal Counts & Reimbursements 30000, 50000

Effect: Meal counts could not be substantiated and therefore, revenue received for the meal program could be materially misstated.

Cause: Lack of segregation of duties over the meal program counts and reporting.

Questioned Costs: Total child nutrition revenue reported for the year ended June 30, 2016 was \$159,319 which consisted of \$150,509 federal funding and \$8,810 state funding.

Recommendation: We recommend that duties be segregated between taking counts and preparing and submitting the claims for reimbursement. A layer of review should be added to review the claims for reimbursements against meal count data. Additionally, amounts claimed should be substantiated with documentation that is retained as contemporaneous records for the audit.

Status: Implemented.

STATE COMPLIANCE FINDINGS

2016-003 Unduplicated Local Control Funding Formula Pupil Counts 40000, 50000

Criteria: Education code section 42238.02 (b)(2) requires a charter school to submit its enrolled free and reduced-price meal eligibility, foster youth and English learner pupil-level records for enrolled pupils using the California Longitudinal Pupil Achievement Data System (CalPADS). The CalPADS 1.17 and 1.18 reports should accurately report the number of students eligible for free and reduced price meals and those identified as “English Learners.”

Condition: During testing we found that the School was unable to obtain free and reduced meal applications for all of its students classified as free or reduced.

Effect: The School is not in compliance with Education code section 42238.02 (b)(2). The 1.17 and 1.18 Reports contained errors. Reports contained errors as follows:

**Blue Oak Charter School
Adjustment to CALPADS Data- June 30, 2016**

Original		Updated		Net Change		LCFF Entitlement		
Enrollment Count	Unduplicated Pupil Count	Enrollment Count	Unduplicated Pupil Count	Enrollment Count	Unduplicated Pupil Count	Original Entitlement	Revised Entitlement	Adjustment
433	252	433	195	-	(57)	\$ 3,134,438	\$ 3,120,091	\$ (14,347)

Cause: The School was unable to locate all of the free and reduced meal applications to support all students reported.

BLUE OAK CHARTER SCHOOL

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

2016-003 Unduplicated Local Control Funding Formula Pupil Counts 40000, 50000

Questioned Costs: Fifty seven students were included in the CalPADS report as eligible for free or reduced meals for which supporting documentation was not available. If all of these students are determined to be ineligible, the total impact of LCFF Entitlement is a decrease of \$14,347.

Recommendation: We recommend that the School employ a standardized monitoring process to ensure that reporting errors are minimized and corrections made on a timely basis. Additionally, students reported as needy should be substantiated with documentation that is retained as contemporaneous records for the audit.

Status: Implemented.