



**ORANGE COUNTY EDUCATIONAL
ARTS ACADEMY AND
OCEAA FACILITIES, LLC**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Orange County Educational Arts Academy
and OCEAA Facilities, LLC
(California Nonprofit Public Benefit Corporations)
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of Orange County Educational Arts Academy (OCEAA) and OCEAA Facilities, LLC (the LLC) (California Nonprofit Public Benefit Corporations), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows 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 opinions 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; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OCEAA and the LLC'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 OCEAA and the LLC'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OCEAA and the LLC, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the OCEAA and the LLC's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 October 30, 2016, on our consideration of the OCEAA and the LLC'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCEAA and the LLC's internal control over financial reporting and compliance.

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
October 30, 2016

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

	<u>OCEAA</u>	<u>LLC</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,593,599	\$ 411,062	\$ 2,004,661
Accounts receivable	254,309	-	254,309
Prepaid expenses	58,517	-	58,517
Total Current Assets	<u>1,906,425</u>	<u>411,062</u>	<u>2,317,487</u>
Non-Current Assets			
Restricted cash	-	847,100	847,100
Bond issue costs, net	-	312,769	312,769
Fixed assets	1,966,391	9,019,140	10,985,531
Less: accumulated depreciation	467,617	2,198,900	2,666,517
Total Non-Current Assets	<u>1,498,774</u>	<u>7,980,109</u>	<u>9,478,883</u>
Total Assets	<u>\$ 3,405,199</u>	<u>\$ 8,391,171</u>	<u>\$ 11,796,370</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 185,973	\$ 167,400	\$ 353,373
Current portion of long-term debt	100,936	170,000	270,936
Total Current Liabilities	<u>286,909</u>	<u>337,400</u>	<u>624,309</u>
Long-Term Obligations			
Non-current portion of long-term debt	990,164	9,376,069	10,366,233
Total Liabilities	<u>1,277,073</u>	<u>9,713,469</u>	<u>10,990,542</u>
NET ASSETS			
Designated	42,322	-	42,322
Unrestricted (deficit)	2,085,804	(1,322,298)	763,506
Total Net Assets (Deficit)	<u>2,128,126</u>	<u>(1,322,298)</u>	<u>805,828</u>
Total Liabilities and Net Assets	<u>\$ 3,405,199</u>	<u>\$ 8,391,171</u>	<u>\$ 11,796,370</u>

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

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016**

	OCEAA	LLC	Eliminations	Total
REVENUES				
Local Control Funding Formula	\$ 4,943,300	\$ -	\$ -	\$ 4,943,300
Federal revenue	486,282	-	-	486,282
State revenue	1,073,958	-	-	1,073,958
Local revenues	537,148	-	-	537,148
Interest income	7,327	124	-	7,451
Rental income	2,408	852,359	(848,686)	6,081
Total Revenues	7,050,423	852,483	(848,686)	7,054,220
EXPENSES				
Program services				
Teacher salaries and benefits	3,674,745	-	-	3,674,745
Educational programs	38,660	-	-	38,660
Occupancy	968,673	-	(721,383)	247,290
Student supplies	195,537	-	-	195,537
Student nutrition	122,183	-	-	122,183
Operating expenses	702,818	-	-	702,818
Depreciation and amortization	-	265,703	-	265,703
Insurance	26,685	-	-	26,685
Capital outlay	101,680	-	-	101,680
Debt interest expense	-	683,941	-	683,941
Total Program Services	5,830,981	949,644	(721,383)	6,059,242
Fundraising				
Fundraising expense	60,918	-	-	60,918
Total Fundraising	60,918	-	-	60,918
Management and general				
Teacher salaries and benefits	298,437	-	-	298,437
Clerical salaries and benefits	302,629	-	-	302,629
District supervisory fee	38,747	-	-	38,747
Student supplies	11,869	-	-	11,869
Occupancy	95,041	-	(127,303)	(32,262)
Depreciation and amortization	188,439	-	-	188,439
Insurance	3,974	-	-	3,974
Operating expenses	112,452	3,485	-	115,937
Capital outlay	3,852	-	-	3,852
Debt interest expense	60,992	-	-	60,992
Total Management and General	1,116,432	3,485	(127,303)	992,614
Total Expenses	7,008,331	953,129	(848,686)	7,112,774
CHANGE IN NET ASSETS	42,092	(100,646)	-	(58,554)
NET ASSETS, BEGINNING OF YEAR	2,086,034	(1,221,652)	-	864,382
NET ASSETS (DEFICIT), END OF YEAR	\$ 2,128,126	\$ (1,322,298)	\$ -	\$ 805,828

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

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
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(California Nonprofit Public Benefit Corporations)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>OCEAA</u>	<u>LLC</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 42,092	\$ (100,646)	\$ (58,554)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities			
Depreciation and amortization expense	186,800	265,703	452,503
Changes in operating assets and liabilities			
Decrease in accounts receivable	3,733	-	3,733
Increase in prepaid expenses and other assets, net	(10,969)	-	(10,969)
Increase in accounts payable	(57,723)	-	(57,723)
Decrease in interest payable	-	(5,501)	(5,501)
Net Cash Provided by Operating Activities	<u>163,933</u>	<u>159,556</u>	<u>323,489</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,619,972)	-	(1,619,972)
Completion of construction in progress	536,918	-	536,918
Net Cash Used by Investing Activities	<u>(1,083,054)</u>	<u>-</u>	<u>(1,083,054)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan proceeds (payments)	<u>1,015,677</u>	<u>(149,247)</u>	<u>866,430</u>
NET INCREASE IN CASH	96,556	10,309	106,865
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,497,043</u>	<u>400,753</u>	<u>1,897,796</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,593,599</u>	<u>\$ 411,062</u>	<u>\$ 2,004,661</u>
Supplemental cash flow disclosure:			
Cash paid during the period for interest	<u>\$ 60,992</u>	<u>\$ 683,941</u>	<u>\$ 744,933</u>

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

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Orange County Educational Arts Academy

Orange County Educational Arts Academy (OCEAA) was formed during 2005 as a California nonprofit organization. In September 2005, OCEAA welcomed its first students. OCEAA is a nonprofit public benefit corporation. OCEAA petitioned and was approved by Santa Ana Unified School District for a charter in 2005 and subsequently has received a second renewal for an additional five years ending in 2020. OCEAA was numbered by State of California Department of Education on May 11, 2005.

Charter school number authorized by the State: 0701

OCEAA is located on 825 N. Broadway Street, Santa Ana, California, 92701 and opened in September 2005, and currently serves approximately 562 students in grades kindergarten through eight. The purpose of OCEAA is to provide alternative education opportunities to students.

OCEAA Facilities, LLC

During 2008, Orange County Educational Arts Academy (OCEAA), a separate 501(c)(3) corporation, formed OCEAA Facilities, LLC (LLC) (exclusively for charitable purpose solely related to property and assets of the Orange County Educational Arts Academy). It is also exempt from the payment of income taxes under *Internal Revenue Code* Section 501(c)(3) and *California Revenue and Taxation Code* Section 23701(d). Additionally, OCEAA Facilities, LLC is exempt from State income taxes under *California Revenue and Taxation Code* Section 23701h. OCEAA and the LLC make lease payments to OCEAA Facilities, LLC, in accordance with the lease agreement.

Financial Statement Presentation

The significant policies followed by OCEAA are described below to enhance the financial statements.

OCEAA is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. OCEAA has no temporarily or permanently restricted net assets, as of June 30, 2016. In addition, OCEAA is required to present a Statement of Cash Flows.

The accompanying financial statements include the assets of OCEAA and OCEAA Facilities, LLC. All significant inter-company transactions have been eliminated.

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(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

OCEAA and the LLC's financial statements are prepared utilizing the accrual basis of accounting. Support and revenues are recorded in the period earned. Expenditures are recognized in the period the liability is incurred.

Income Taxes

OCEAA and the LLC are nonprofit public benefit corporations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, OCEAA and the LLC are not aware of any such actions at this time.

OCEAA and the LLC have adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, OCEAA and the LLC consider all cash on hand, in banks, cash with county treasury, and highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

OCEAA and the LLC consider accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Prepaid Expenses / Security Deposit

Prepaid expenses represent amounts paid in advance of receiving goods or services. OCEAA has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
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(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Fixed Assets

It is OCEAA and the LLC's policy to capitalize individual property and equipment purchases over \$2,500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Furniture and equipment are depreciated using the straight-line method, over 3 to 5 years. Depreciation expense for the year ended June 30, 2016, was \$186,800 and \$265,703, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to OCEAA's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

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 and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2016, consisted of the following:

	Reported Amount			Bank Balance
	OCEAA	LLC	Total	
Deposits and Investments				
Cash on hand and in banks	\$ 227,336	\$ 411,062	\$ 638,398	\$ 728,382
Cash with Orange County Investment Pool	1,366,263	-	1,366,263	NA
Total	<u>\$ 1,593,599</u>	<u>\$ 411,062</u>	<u>\$ 2,004,661</u>	<u>\$ 728,382</u>
Restricted cash	<u>\$ -</u>	<u>\$ 847,100</u>	<u>\$ 847,100</u>	<u>\$ 847,100</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). OCEAA and the LLC maintain its cash in accounts with a financial institution that participates in the FDIC Temporary Liquidity Guarantee Program, which provides unlimited insurance for funds held in non-interest bearing accounts. At June 30, 2016, OCEAA and the LLC had a balance of \$67,320 and \$1,008,162, respectively, in excess of FDIC limits. Management believes OCEAA and the LLC are not exposed to any significant risk related to cash.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - INVESTMENTS

Investments at June 30, 2016, consisted of the following:

Investment Type	Reported Amount	Fair Market Value
County Treasury Investment Pool	\$ 1,366,263	\$ 1,369,624

NOTE 4 - FAIR MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. The Foundation did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

Investment Type	Level	Fair Value	Weighted Average Days to Maturity
County Treasury Investment Pool	2	\$ 1,369,624	339

NOTE 5 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2016, consisted of the following:

	OCEAA
Federal receivables	\$ 61,231
State receivables	129,049
Lottery	63,884
Local receivables	145
Total Accounts Receivable	\$ 254,309

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2016, consisted of the following:

	OCEAA
Insurance	\$ 18,830
Security deposit	18,466
Other	21,221
Total Prepaid Expenses	\$ 58,517

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - FIXED ASSETS

The fixed assets at June 30, 2016, consisted of the following:

	<u>OCEAA</u>	<u>LLC</u>	<u>Total</u>
Land	\$ -	\$ 1,430,000	\$ 1,430,000
Site improvements	1,734,963	337,526	2,072,489
Buildings	-	7,251,614	7,251,614
Furniture and equipment	72,569	-	72,569
Computer equipment	158,859	-	158,859
Subtotal	<u>1,966,391</u>	<u>9,019,140</u>	<u>10,985,531</u>
Less: accumulated depreciation	<u>(467,617)</u>	<u>(2,198,900)</u>	<u>(2,666,517)</u>
Total Fixed Assets	<u>\$ 1,498,774</u>	<u>\$ 6,820,240</u>	<u>\$ 8,319,014</u>

During the year ended June 30, 2016, \$186,800 and \$265,703, was charged to OCEAA and the LLC, respectively, for depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

The accounts payable at June 30, 2016, consisted of the following:

	<u>OCEAA</u>	<u>LLC</u>	<u>Total</u>
Salaries and benefits	\$ 86,073	\$ -	\$ 86,073
Vendor payables	86,907	-	86,907
Interest	-	167,400	167,400
Due to grantor governments	12,993	-	12,993
Total Accounts Payable	<u>\$ 185,973</u>	<u>\$ 167,400</u>	<u>\$ 353,373</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 - LONG-TERM DEBT

Bonds Payable

In August 2008, the LLC obtained bond financing through the California Municipal Finance Authority (CMFA). The \$10,515,000 borrowed was to be used to acquire certain school facilities for lease to the Orange County Educational Arts Academy. The bonds are secured by a deed of trust on the school facilities. The loan agreement requires the LLC to comply with various covenants, conditions and restrictions.

The LLC is required to maintain a bond reserve cash account at an amount equal to the least of (a) ten percent of the proceeds of the Series 2008A Bonds or (b) maximum annual debt service with respect to the Series 2008A Bonds Outstanding, or (c) 125 percent of average annual debt service with respect to the Series 2008A Bonds. As of June 30, 2016, this amounted to \$847,100 and is reported as restricted cash and cash equivalents on the Statement of Financial Position. The bonds bear interest rates ranging from 6.75 to 11.00 percent. Interest payments are due every six months and principle payments began annually on October 1, 2010, with the last payment on October 1, 2039. As of June 30, 2016 the bonds outstanding was \$9,546,069.

Under the current bonding agreement, annual disclosure requirement include Corporation's audited financial statement, enrollment and waiting list data, interim reports as defined by California Department of Education and material events (if required under section 5 of the bonding agreement. As of June 30, 2016, OCEAA and the LLC have met these requirements.

Costs associated with the issuance of these bonds have been capitalized as a long-term asset. These costs are amortized over the term of the bonds. Amortization of the issuance costs for the year ended June 30, 2016, was \$14,110.

Bonds payable are reported on the balance sheet net of a bond discount. The discount is being amortized to interest expense over the life of the bonds. The amortized bond discount charged to interest expense for the year ended June 30, 2016, was \$10,753.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Future maturities are as follows:

Fiscal Year Ending June 30,	
2017	\$ 170,000
2018	185,000
2019	195,000
2020	210,000
2021	225,000
2022-2026	1,365,000
2027-2031	1,885,000
2032-2036	2,640,000
2037-2040	<u>2,865,000</u>
Subtotal	9,740,000
Less unamortized discount	193,931
Total	<u><u>\$ 9,546,069</u></u>

Loan

On March 13, 2015, OCEAA obtained a two-phase \$1,200,000 loan from Raza Development Fund, Inc., for the purpose of renovation and the construction of certain tenant improvements on the premises located at 822-828 N. Broadway Street, Santa Ana, California 92701. Phase I (Construction Loan) of the loan matures on April 1, 2016 for a term of 12 months with interest on the outstanding principal from the date advanced to the date paid during the term of the loan at the per annum rate of seven percent (7%). The Construction Loan will then convert into Phase II (Construction/Permanent Loan) and becomes effective April 1, 2016 for a term of an additional 108 months for a total of 120 months. The principal amount of the Construction/Permanent Loan shall accrue interest at the rate of seven percent (7%) fixed per annum. The loan shall fully amortize over the remaining term of the loan, or 108 months. OCEAA will drawdown funds from the loan as construction progresses. As of June 30, 2016, the amount available for drawdown was \$95,586, the Construction Loan balance was \$1,104,414.

Construction loan	\$ 1,104,414
Capitalized loan origination cost	(31,434)
Net balance	<u><u>\$ 1,072,980</u></u>

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
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(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Estimated future loan payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Balance
2017	\$ 94,847	\$ 74,304	\$ 169,151
2018	101,703	67,448	169,151
2019	109,056	60,095	169,151
2020	116,939	52,212	169,151
2021	125,393	43,758	169,151
2022-2025	556,476	77,843	634,319
Total	<u>\$ 1,104,414</u>	<u>\$ 375,660</u>	<u>\$ 1,480,074</u>

TEQ LEASE

On April 6, 2016, OCEAA entered into a lease agreement with TEQ LEASE, Inc., for the rental of refurbished Google Chromebooks. The term of the lease is for 36 months commencing on May 1, 2016, and ending on April 1, 2019, with monthly payments of \$614. Total lease payments for the year ended June 30, 2016, was \$1,228.

Estimated future minimum lease payments as of June 30, 2016 are:

Fiscal Year Ending June 30,	Principal	Interest	Balance
2017	\$ 6,088	\$ 1,282	\$ 7,370
2018	6,600	771	7,371
2019	5,921	221	6,142
Total	<u>\$ 18,609</u>	<u>\$ 2,274</u>	<u>\$ 20,883</u>

NOTE 10 - NET ASSETS (DEFICIT)

Net assets at June 30, 2016, consisted of the following:

	OCEAA	LLC	Total
Designated for State programs	\$ 42,322	\$ -	\$ 42,322
Unrestricted (deficit)	2,085,804	(1,322,298)	763,506
Total Net Assets (Deficit)	<u>\$ 2,128,126</u>	<u>\$ (1,322,298)</u>	<u>\$ 805,828</u>

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - OPERATING LEASE

On November 11, 2013, OCEAA entered into an operating lease agreement with Bruno Ledwin for the locations at 822-828 N. Broadway Street, and the parking lot off of 825 N. Birch Street in Santa Ana, California 92701. The term of the lease is for seven years beginning on December 10, 2013, and ending on December 9, 2020. OCEAA is responsible for initial monthly lease payments of \$16,407, with a three percent annual increase. Total rent expense for the year ended June 30, 2016, was \$200,328.

Estimated future minimum lease payments under operating leases as of June 30, 2016 are:

Fiscal Year Ending <u>June 30,</u>	Lease <u>Payments</u>
2017	\$ 206,337
2018	212,526
2019	218,902
2020	225,470
2021	95,100
Total	<u>\$ 958,335</u>

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. 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, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the Charter School's total contributions were \$226,052.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. 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, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total Charter School contributions were \$143,301.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of OCEAA. These payments consist of State General Fund contributions to CalSTRS in the amount of \$122,228, (7.12589 percent of salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. OCEAA has no obligations to CalSTRS for early retirement incentives granted to terminated employees.

NOTE 13 - RISK MANAGEMENT

Participation in Joint Powers Authority

OCEAA is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation insurance and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and OCEAA are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016, OCEAA made payments of \$59,507 to CharterSAFE for services received. At June 30, 2016, OCEAA had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 14 - RELATED PARTY TRANSACTIONS

In connection with OCEAA Facilities, LLC was formed to obtain financing to construct or purchase property to be used by OCEAA for education purposes. OCEAA converted the prior capital lease into an operating lease agreement with OCEAA Facilities, LLC on July 1, 2013, for its current educational facility located in Santa Ana, California. See Note 8 for additional information on the operating lease. OCEAA also pays for any expenses incurred by OCEAA Facilities, LLC.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

On July 1, 2013, OCEAA entered into an operating lease with the LLC for the property located at 825 N. Broadway Street, Santa Ana, California 92701. Under the original terms of the lease dated August 1, 2008, OCEAA was leasing the property as a capital lease through 2039; however, the terms of the lease were restated through August 31, 2030, thus allowing for the reclassification to an operating lease. Per the lease agreement monthly payments are adjusted annually. OCEAA was responsible for monthly lease payments of \$70,781 (includes \$442 of monthly expense) through August 2015. Effective September 2015, monthly lease payments decreased to \$70,712 (which includes \$438 of monthly expense). Total rent expense for the year ended June 30, 2016, was \$848,686. The rent expense and rental income have been eliminated in the Statement of Activities and Changes in Net Assets.

Estimated future minimum lease payments under operating leases as of June 30, 2016 are:

Fiscal Year Ending June 30,	Lease Payments
2017	\$ 851,465
2018	849,952
2019	851,040
2020	852,002
2021	851,950
2022-2026	3,400,036
2027-2031	4,385,483
Total	<u>\$ 12,041,928</u>

NOTE 15 - CONTINGENCIES

OCEAA have received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

OCEAA and the LLC are not currently a party to any legal proceedings.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 - SUBSEQUENT EVENTS

OCEAA and the LLC's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through October 30, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016**

ORGANIZATION

Orange County Education Arts Academy (Charter Number 0701) was granted on May 12, 2005, by the Santa Ana Unified School District. OCEAA operates one school providing classroom-based instruction to students in kindergarten through grade eight.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Kimberly Barraza-Lyons	President	May 2019
¹ John Straw	Vice President	May 2016
Dr. Alfonso Bustamante	Chairperson	September 2016
Lucero Grant	Vice Chairperson	August 2016
Boris Molina Barrera	Treasurer	June 2017
Roberta A. Kraus	Secretary	July 2017
Scott Overpeck	Member	July 2017
Valerie Sullivan	Member	March 2017

ADMINISTRATION

Kristin Collins	School Director
Vanessa Besack	Director of Operations

¹ Resigned in May 2016.

See accompanying note to supplementary information.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Kindergarten through third	310	310
Fourth through sixth	163	163
Seventh and eighth	89	89
Total Regular ADA	<u>562</u>	<u>562</u>
Classroom based ADA		
Kindergarten through third	310	310
Fourth through sixth	163	163
Seventh and eighth	89	89
Total Classroom Based ADA	<u>562</u>	<u>562</u>

OCEAA does not operate a Non-Classroom Based Instruction program.

See accompanying note to supplementary information.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	42,764	175	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		56,544	175	N/A	Complied
Grade 2		57,229	175	N/A	Complied
Grade 3		57,229	175	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		57,229	175	N/A	Complied
Grade 5		58,484	175	N/A	Complied
Grade 6		58,484	175	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		58,590	175	N/A	Complied
Grade 8		58,590	175	N/A	Complied

See accompanying note to supplementary information.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about OCEAA operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of OCEAA. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by OCEAA and whether OCEAA complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

OCEAA must maintain their instructional minutes at the 1986-1987 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S REPORTS



**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***

Governing Board
Orange County Educational Arts Academy
and OCEAA Facilities, LLC
(California Nonprofit Public Benefit Corporations)
Santa Ana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orange County Educational Arts Academy (OCEAA) and OCEAA Facilities, LLC (the LLC) (California Nonprofit Public Benefit Corporations) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise OCEAA and the LLC's basic financial statements, and have issued our report thereon dated October 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCEAA and the LLC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCEAA and the LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of OCEAA and the LLC'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 OCEAA and the LLC'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 OCEAA and the LLC'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 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 OCEAA and the LLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCEAA and the LLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrink, Tin, Day & Co., LLP

Rancho Cucamonga, California
October 30, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Orange County Educational Arts Academy
and OCEAA Facilities, LLC
(California Nonprofit Public Benefit Corporations)
Santa Ana, California

Report on State Compliance

We have audited Orange County Educational Arts Academy (OCEAA) and OCEAA Facilities, LLC's (the LLC) (California Nonprofit Public Benefit Corporations) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Orange County Educational Arts Academy and OCEAA Facilities, LLC's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of OCEAA and the LLC's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about OCEAA and the LLC'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 opinions. Our audit does not provide a legal determination of OCEAA and the LLC's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, OCEAA and the LLC complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

Other Matters

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

OCEAA does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

OCEAA does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

OCEAA does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

OCEAA was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

Vannink, Tim, Day & Co., LLP

Rancho Cucamonga, California

October 30, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**ORANGE COUNTY EDUCATIONAL ARTS ACADEMY AND
OCEAA FACILITIES, LLC
(California Nonprofit Public Benefit Corporations)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.