



**NEVADA CITY
SCHOOL OF THE ARTS**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2019**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA CHARTER SCHOOL**

Nevada City School of the Arts (Charter No. 0869)

NEVADA CITY SCHOOL OF THE ARTS
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JUNE 30, 2019

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nevada City School of the Arts
Nevada City, California

Report on the Financial Statements

We have audited the accompanying financial statements of Nevada City School of the Arts (the "Charter") which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nevada City School of the Arts as of June 30, 2019, 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.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 1P to the financial statements, in 2018-19 Nevada City School of the Arts adopted new accounting guidance, ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Nevada City School of the Arts taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is 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 our report dated December 6, 2019, on our consideration of the Charter'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 Charter'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 Charter's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Christy White, Inc". The signature is cursive and fluid.

San Diego, California
December 6, 2019

NEVADA CITY SCHOOL OF THE ARTS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current assets

Cash and cash equivalents	\$ 265,983
Accounts receivable, net	520,535
Prepaid expenses	<u>51,116</u>
Total current assets	<u>837,634</u>

Noncurrent assets

Deposits	13,786
Capital assets, net	<u>5,903,767</u>
Total noncurrent assets	<u>5,917,553</u>
Total Assets	<u>\$ 6,755,187</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 109,793
Lease deposits	12,299
Loans payable	<u>2,199,184</u>
Total liabilities	<u>2,321,276</u>

Net assets

Without donor restrictions	4,378,485
With donor restrictions	<u>55,426</u>
Total net assets	<u>4,433,911</u>
Total Liabilities and Net Assets	<u>\$ 6,755,187</u>

The notes to the financial statements are an integral part of this statement.

**NEVADA CITY SCHOOL OF THE ARTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 2,298,417	\$ -	\$ 2,298,417
Federal revenues	230,024	-	230,024
Other state revenues	944,671	80,346	1,025,017
Total federal and state support and revenues	3,473,112	80,346	3,553,458
Local support and revenues			
Payments in lieu of property taxes	1,357,212	-	1,357,212
Grants and donations	6,425	-	6,425
Investment income, net	273	-	273
Other local revenues	640,272	-	640,272
Total local support and revenues	2,004,182	-	2,004,182
Donor restrictions satisfied	24,920	(24,920)	-
Total Support and Revenues	5,502,214	55,426	5,557,640
EXPENSES			
Program services	3,319,714	-	3,319,714
Supporting services			
Management and general	2,484,808	-	2,484,808
Fundraising	75,171	-	75,171
Total Expenses	5,879,693	-	5,879,693
CHANGE IN NET ASSETS	(377,479)	55,426	(322,053)
Net Assets - Beginning	4,755,964	-	4,755,964
Net Assets - Ending	\$ 4,378,485	\$ 55,426	\$ 4,433,911

The notes to the financial statements are an integral part of this statement.

**NEVADA CITY SCHOOL OF THE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Personnel expenses				
Certificated salaries	\$ 1,140,739	\$ 175,832	\$ -	\$ 1,316,571
Non-certificated salaries	721,568	713,975	42,178	1,477,721
Deferred compensation	361,427	67,706	1,500	430,633
Payroll taxes	94,137	60,585	3,755	158,477
Other employee benefits	167,893	145,743	8,085	321,721
Total personnel expenses	2,485,764	1,163,841	55,518	3,705,123
Non-personnel expenses				
Books and supplies	145,902	67,611	5,046	218,559
Insurance	-	78,674	-	78,674
Facilities	5,835	358,132	-	363,967
Professional services	638,293	219,058	14,607	871,958
Interest expense	-	94,077	-	94,077
Depreciation	-	300,968	-	300,968
Bad debt expense	-	118,416	-	118,416
Payments to authorizing agency	-	36,450	-	36,450
Other operating expenses	43,920	47,581	-	91,501
Total non-personnel expenses	833,950	1,320,967	19,653	2,174,570
Total Expenses	\$ 3,319,714	\$ 2,484,808	\$ 75,171	\$ 5,879,693

The notes to the financial statements are an integral part of this statement.

**NEVADA CITY SCHOOL OF THE ARTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (322,053)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	300,968
Provision for write-off of uncollectible receivables	118,416
(Increase) decrease in operating assets	
Accounts receivable	10,571
Prepaid expenses	(41,779)
Increase (decrease) in operating liabilities	
Accounts payable	8,496
Lease deposits	4,599
Net cash provided by (used in) operating activities	<u>79,218</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets	<u>(348,503)</u>
Net cash provided by (used in) investing activities	<u>(348,503)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Draw on loans payable	705,928
Principal payments on loans payable	<u>(185,746)</u>
Net cash provided by (used in) financing activities	<u>520,182</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 250,897

Cash and cash equivalents - Beginning 15,086

Cash and cash equivalents - Ending \$ 265,983

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u>\$ 88,208</u>
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The notes to the financial statements are an integral part of this statement.

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Nevada City School of the Arts (the “Charter”) was formed as a nonprofit public benefit corporation on November 9, 2007 for the purpose of operating as a California public school located in Nevada County. The Charter was numbered by the State Board of Education in May 2007 as California Charter No. 0869. The mission of the Nevada City School of the Arts is to nurture and inspire academic excellence through the arts for children in transitional kindergarten through eighth grade.

Nevada City School of the Arts is authorized to operate as a charter school through the Nevada County Superintendent of Schools (the “authorizing agency”). In February 2017, the Nevada County Board of Education approved a charter petition renewal for the Charter for a five-year term beginning July 1, 2017 and expiring on June 30, 2022. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

B. Basis of Accounting

The Charter’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018.

Under the Guide, Nevada City School of the Arts is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

As a public charter school, the Charter also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is not used in the Charter’s financial statement presentation.

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management's estimates.

F. Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

G. In Lieu of Property Taxes Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the local school district. In lieu of distributing funds out of property tax proceeds, the local school district makes monthly payments to Nevada City School of the Arts. Revenues are recognized by the Charter when earned.

H. Cash and Cash Equivalents

Nevada City School of the Arts considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

I. Investments

The Charter's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities. Investment return is presented net of any investment fees.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Charter establishes or adjusts the allowance for specific revenue sources as a whole.

K. Capital Assets

Nevada City School of the Arts has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

L. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

M. Income Taxes

Nevada City School of the Arts is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Charter is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, the Charter is not required to register with the California Attorney General as a charity.

The Charter's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Charter's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New Accounting Pronouncements

Revenue Recognition

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in FASB ASU No. 2014-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The effective dates for the new guidance are staggered. Public entities have already implemented the new guidance, and nonprofit entities are required to implement the new guidance for fiscal years beginning after December 15, 2018. The Charter will determine the impact on the financial statements once implemented for the fiscal year ending June 30, 2020.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and was originally effective for public business entities for fiscal years beginning after December 15, 2018. In October 2019, FASB approved to delay effective dates for all public business entities, except for SEC filers, to fiscal years beginning after December 15, 2019. The Charter will determine the impact on the financial statements once implemented for the fiscal year ending June 30, 2021.

P. Change in Accounting Principle

Not-for-Profit Financial Reporting Model Standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The implementation had no impact on the previously reported total net assets as of July 1, 2018. Total beginning net assets were unrestricted and have therefore been fully reclassified as net assets without donor restrictions under the new accounting principle.

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2019, consist of the following:

Cash in banks, interest bearing	\$	265,203
Cash in banks, non-interest bearing		100
Cash on hand or awaiting deposit		680
Total Cash and Cash Equivalents	\$	265,983

The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2019, \$250,550 of the Nevada City School of the Arts' bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held at one bank. Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. Nevada City School of the Arts does not have a policy for custodial credit risk for deposits.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for bad debt, as of June 30, 2019, consists of the following:

Local control funding sources	\$	59,451
Federal sources		70,851
Other state sources, net		365,526
In lieu property taxes		19,642
Other local sources		5,065
Total Accounts Receivable, net	\$	520,535

At June 30, 2019, an allowance for doubtful accounts of \$118,416 was considered necessary as this portion of prior accounts receivable was deemed uncollectible. The amount is attributed to state charter facility funding under SB740.

NOTE 4 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2019 consists of the following:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Property and equipment				
Land and land improvements	\$ 1,380,293	\$ 59,619	\$ -	\$ 1,439,912
Buildings and building improvements	4,878,513	337,144	-	5,215,657
Construction in progress	48,260	-	48,260	-
Total property and equipment	6,307,066	396,763	48,260	6,655,569
Less accumulated depreciation	(450,834)	(300,968)	-	(751,802)
Capital Assets, net	\$ 5,856,232	\$ 95,795	\$ 48,260	\$ 5,903,767

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2019, consists of the following:

Due to authorizing agency	\$	44,374
Accrued payroll expenses		33,847
Credit card liabilities		10,822
Due to grantor governments		7,616
Interest payable		5,869
Vendor payables		7,265
Total Accounts Payable	\$	109,793

NOTE 6 – LOANS PAYABLE

A summary of activity related to loans payable during the year ended June 30, 2019 consists of the following:

	Balance July 1, 2018	Draws	Payments	Balance June 30, 2019
Mortgage loan	\$ 1,142,006	\$ -	\$ 39,829	\$ 1,102,177
Construction loan	416,613	303,866	23,580	696,899
Lines of credit	120,383	402,062	122,337	400,108
Total Loans Payable	\$ 1,679,002	\$ 705,928	\$ 185,746	\$ 2,199,184

Mortgage and Construction Loans

On November 14, 2016, the Charter entered into a mortgage loan agreement with Tri Counties Bank for the purpose of financing the purchase for real property located at 13032 Britney Springs Road in Nevada City, California. The loan was for \$1,200,000 and bears interest of 4.97%. At June 30, 2019, the outstanding amount was \$1,102,177.

Also on November 14, 2016, the Charter entered into a construction loan agreement with Tri Counties Bank for improvements to the above mentioned property. The loan was for \$744,000 and bears interest of 4.75%. Once the project is complete, the construction loan will convert to permanent financing.

Repayment obligations on the above referenced debt are as follows:

Fiscal Year Ending June 30,	Mortgage	Construction	Total
2020	\$ 93,590	\$ 58,028	\$ 151,618
2021	93,590	58,028	151,618
2022	93,590	58,028	151,618
2023	93,590	58,028	151,618
2024	93,590	58,028	151,618
Thereafter	979,842	642,438	1,622,280
Total minimum payments	1,447,792	932,578	2,380,370
Less: interest component	(345,615)	(235,679)	(581,294)
Total	\$ 1,102,177	\$ 696,899	\$ 1,799,076

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 6 – LOANS PAYABLE (continued)

Lines of Credit

Prior to July 2018, the Charter held a line of credit of \$200,000 with a financial institution bearing interest of 5.40% and maturing in March 2021. As of July 1, 2018, the outstanding balance was \$120,383, which has been fully repaid during the fiscal year ended June 30, 2019.

In September 2018, the Charter entered into a temporary cash transfer agreement with the Nevada County Superintendent of Schools for the borrowing of \$400,000. The purpose of the borrowing is to cover short-term cash flow needs. Interest on the borrowing is equal to the actual interest rate published by the Nevada County Treasury during the time of the loan. Repayment of all funds, including interest earnings, is due no later than August 31, 2020. As of June 30, 2019, \$400,108 was outstanding on this line of credit.

NOTE 7 – NET ASSETS

Net Assets with Donor Restrictions

At June 30, 2019, net assets with donor restrictions consisted of \$55,426 in funding with State-imposed restrictions relating to the following programs:

Lottery: instructional materials	\$	19,629
Classified professional development grant		5,759
Low-performing students block grant		30,038
Total Net Assets with Donor Restrictions	\$	55,426

Net Assets without Donor Restrictions

Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Charter. At June 30, 2019, the Charter's net assets without donor restrictions consist of the following:

Net investment in capital assets	\$	4,104,691
Undesignated		273,794
Total Net Assets without Donor Restrictions	\$	4,378,485

NOTE 8 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Nevada City School of the Arts in an effort to advance the Charter's programs and objectives. These services have not been recorded in the Charter's financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 9 – RELATED PARTY TRANSACTIONS

The Charter makes payments to the authorizing agency, Nevada County Superintendent of Schools, to provide required services for oversight. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. Total fees paid to the authorizing agency for oversight amounted to \$36,450 the fiscal year ending June 30, 2019.

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Charter's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action. Nevada City School of the Arts utilized a line of credit (as mentioned in Note 6) which has been drawn upon to ensure financial assets are available as general expenditures and other obligations become due.

Financial assets	
Cash and cash equivalents	\$ 265,983
Accounts receivable, current portion	520,535
Prepaid expenses	51,116
Total Financial Assets, excluding noncurrent	<u>\$ 837,634</u>
Contractual or donor-imposed restrictions	
Cash restricted by others for specific uses	<u>(55,426)</u>
Financial Assets available to meet cash needs	
for expenditures within one year	<u>\$ 782,208</u>

NOTE 11 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election for its certificated personnel. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and non-certificated employees participate in social security as an alternative plan.

California State Teachers' Retirement System (CalSTRS)

Plan Description

Nevada City School of the Arts contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 10.25% or 10.205% of their 2018-19 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2018-19 was 16.28% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter's contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2018-19	\$ 205,846	100%
2017-18	\$ 182,969	100%
2016-17	\$ 146,888	100%

NEVADA CITY SCHOOL OF THE ARTS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS) (continued)

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for Nevada City School of the Arts is estimated at \$198,137. The on-behalf payment amount is computed as the proportionate share of total 2017-18 State on-behalf contributions plus an additional supplemental contribution for fiscal year 2018-19 due to California Senate Bill No. 90.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Governmental Funds

Nevada City School of the Arts has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Multi-employer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Charter's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Charter to make payments to the plan, which would approximate the Charter's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Charter's share of withdrawal liability is approximately \$2,170,818 as of June 30, 2018. The Charter does not currently intend to withdraw from CalSTRS. Refer to Note 11 for additional information on employee retirement plans.

NOTE 13 – SUBSEQUENT EVENTS

Nevada City School of the Arts has evaluated subsequent events for the period from June 30, 2019 through December 6, 2019, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

**NEVADA CITY SCHOOL OF THE ARTS
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2019**

Nevada City School of the Arts, located in Nevada County, was formed as a nonprofit public benefit corporation on November 9, 2007 and numbered by the State Board of Education in May 2007 as Charter No. 0869. The Charter was authorized to operate as a charter school through the Nevada County Superintendent of Schools. Classes began initially began in August 2007. During 2018-19, the Charter served approximately 445 students in grades TK to 8.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Jeff Corbett	President	June 13, 2020
Mackenzie Leeke	Vice President	June 13, 2020
Angie Tomey	Treasurer	June 13, 2020
LeeAnne Haglund	Secretary	June 13, 2020
Paul Harton	Member	June 30, 2019
Leah Delira	Member	June 30, 2020
Meshawn Simmons	Member	June 30, 2020
John Gilman	Member	June 30, 2020
Winter Shaw	Member	June 30, 2020

ADMINISTRATION

Holly Pettitt
School Director

Melissa Brokenshire
Business Manager

See accompanying note to supplementary information.

**NEVADA CITY SCHOOL OF THE ARTS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Second Period Report	Annual Report
<i>Certificate No.</i>	<i>818BF1AB</i>	<i>001CD86A</i>
	Classroom-Based	
Grade Span		
Kindergarten* through third	171.89	172.39
Fourth through sixth	142.29	142.57
Seventh through eighth	96.49	96.91
Total Average Daily Attendance - Classroom-Based	410.67	411.87
	Nonclassroom-Based	
Grade Span		
Kindergarten* through third	3.38	2.96
Fourth through sixth	1.47	1.43
Seventh through eighth	0.94	0.87
Total Average Daily Attendance - Nonclassroom-Based	5.79	5.26
Total Average Daily Attendance	416.46	417.13

*Includes Transitional Kindergarten (TK)

See accompanying note to supplementary information.

**NEVADA CITY SCHOOL OF THE ARTS
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Span	Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten*	36,000	42,000	175	Complied
Grades 1 through 3	50,400	50,519	175	Complied
Grades 4 through 8	54,000	55,939	175	Complied

*Includes Transitional Kindergarten (TK)

See accompanying note to supplementary information.

NEVADA CITY SCHOOL OF THE ARTS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2019

June 30, 2019, fund balance/net position on the Financial Report - Alternative Form (Charter School Unaudited Actuals)	<u>\$ 4,509,733</u>
Adjustments:	
Increase (decrease) in total net assets:	
Reduce receivable accrual for SB740 state revenues	<u>(75,822)</u>
Net adjustments	<u>(75,822)</u>
June 30, 2019, net assets per audited financial statements	<u>\$ 4,433,911</u>

See accompanying note to supplementary information.

**NEVADA CITY SCHOOL OF THE ARTS
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

NOTE 1 – PURPOSE OF SCHEDULES

A. Charter Organizational Structure

This schedule provides information about the Charter's authorizing agency, grades served, members of the governing body, and members of the administration.

B. Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the charter 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 and in different programs.

C. Schedule of Instructional Time

Nevada City School of the Arts receives, as part of their local control funding formula sources, incentive funding for maintaining instructional time. This schedule presents information on the amount of instructional time offered by the Nevada City School of the Arts and whether the Charter complied with the provisions of *Education Code Section 46200* through *46208*.

D. Reconciliation of Financial Report – Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets on the audited financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**Independent Auditors' Report

To the Board of Directors of
Nevada City School of the Arts
Nevada City, California

We have audited, 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, the financial statements of Nevada City School of the Arts (the "Charter") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated December 6, 2019.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter'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 the Charter'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 Charter's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Christy White, Inc". The signature is written in a cursive, flowing style.

San Diego, California
December 6, 2019

REPORT ON STATE COMPLIANCEIndependent Auditors' Report

To the Board of Directors of
Nevada City School of the Arts
Nevada City, California

Report on State Compliance

We have audited Nevada City School of the Arts' compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Nevada City School of the Arts' state programs for the fiscal year ended June 30, 2019, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Nevada City School of the Arts' state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about Nevada City School of the Arts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Nevada City School of the Arts' compliance with those requirements.

Opinion on State Compliance

In our opinion, Nevada City School of the Arts complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the following table for the year ended June 30, 2019.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Nevada City School of the Arts' compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts, County Offices of Education and Charter Schools	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	Not applicable
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not applicable

We did not perform testing of Nonclassroom-Based Instruction/Independent Study because reported average daily attendance (ADA) was not material.



San Diego, California
December 6, 2019

FINDINGS AND QUESTIONED COSTS SECTION

**NEVADA CITY SCHOOL OF THE ARTS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>None</u>

Federal Awards

*The Charter did not expend more than \$750,000 in federal awards;
therefore, a Federal Single Audit under OMB Uniform Grant Guidance
is not applicable.*

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

NEVADA CITY SCHOOL OF THE ARTS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no audit findings related to the financial statements during 2018-19.

**NEVADA CITY SCHOOL OF THE ARTS
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no audit findings and questioned costs related to state awards during 2018-19.

**NEVADA CITY SCHOOL OF THE ARTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings and questioned costs for the year ended June 30, 2018.