

**CHARTER SCHOOL OF MORGAN HILL
FOUNDATION**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017

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CHAVAN & ASSOCIATES, LLP

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CHARTER SCHOOL OF MORGAN HILL FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Charter School of Morgan Hill Foundation
Morgan Hill, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Charter School of Morgan Hill Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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. 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 the Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

C & A LLP

January 5, 2018
San Jose, California

CHARTER SCHOOL OF MORGAN HILL FOUNDATION

Statement of Financial Position

June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 1,043,530
Accounts receivable	1,540
Due from CSMH	3,738
Prepaid expenses	<u>5,887</u>

TOTAL ASSETS	<u><u>\$ 1,054,695</u></u>
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Liabilities

Current liabilities:

Accounts payable	\$ 2,757
Due to CSMH	192
Other current liabilities	<u>4,800</u>

TOTAL LIABILITIES	<u>7,749</u>
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Net Assets

Temporarily restricted for:

Classroom supplies for 2017-18	9,755
Make it Happen donations	<u>62,150</u>
Total temporarily restricted net assets	71,905

Unrestricted	<u>975,041</u>
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TOTAL NET ASSETS	<u>1,046,946</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,054,695</u></u>
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The Notes to Financial Statements are an integral part of this statement.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION

Statement of Activities

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Contributions:			
Annual Giving and Growing Program	\$ 287,982	\$ -	\$ 287,982
Classroom Supplies Funding	-	26,375	26,375
Other contributions	260	-	260
Total Contributions	<u>288,242</u>	<u>26,375</u>	<u>314,617</u>
Special Events:			
Gala Event	297,920	62,150	360,070
Family Fun Fest	29,154	-	29,154
Total Special Events	<u>327,074</u>	<u>62,150</u>	<u>389,224</u>
Less: Direct Fundraising Costs	<u>(190,947)</u>	<u>-</u>	<u>(190,947)</u>
Total Special Events - Net	<u>136,127</u>	<u>62,150</u>	<u>198,277</u>
Other Income:			
Interest	2,166	-	2,166
Net Assets Released From Restrictions	<u>39,749</u>	<u>(39,749)</u>	<u>-</u>
Total Support and Revenues	<u>466,284</u>	<u>48,776</u>	<u>515,060</u>
 Expenses			
Program Services	286,101	-	286,101
Management and General	42,360	-	42,360
Fundraising	8,042	-	8,042
Total Expenses	<u>336,503</u>	<u>-</u>	<u>336,503</u>
 Change in Net Assets	 129,781	 48,776	 178,557
 Net Assets - Beginning of the Year	 <u>845,260</u>	 <u>23,129</u>	 <u>868,389</u>
 Net Assets - End of the Year	 <u><u>\$ 975,041</u></u>	 <u><u>\$ 71,905</u></u>	 <u><u>\$ 1,046,946</u></u>

The Notes to Financial Statements are an integral part of this statement.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION**Statement of Functional Expenses****For the Year Ended June 30, 2017**

Expenses	Program Services	Management and General	Fundraising	Total
Contributions to CSMH	\$ 284,855	\$ -	\$ -	\$ 284,855
Professional Fees	-	15,843	-	15,843
Business Meals	1,246	-	-	1,246
Licenses & Fees	-	21,384	-	21,384
Insurance	-	2,525	-	2,525
Printing and Copying	-	2,172	-	2,172
Supplies	-	436	-	436
Service Charges	-	-	8,042	8,042
Total Expenses	<u>\$ 286,101</u>	<u>\$ 42,360</u>	<u>\$ 8,042</u>	<u>\$ 336,503</u>

The Notes to Financial Statements are an integral part of this statement.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION

Statement of Cash Flows

June 30, 2017

Operating Activities	
Change in net assets	\$ 178,557
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(1,540)
(Increase) decrease in due from CSMH	(3,738)
(Increase) decrease in prepaid expenses	(2,285)
(Increase) decrease in other assets	855
Increase (decrease) in accounts payable	1,727
Increase (decrease) in due to CSMH	192
Increase (decrease) in other current liabilities	<u>(683)</u>
Net cash provided by (used for) operating activities	<u>173,085</u>
Net increase in cash and cash equivalents	173,085
Cash and cash equivalents - beginning of the year	<u>870,445</u>
Cash and cash equivalents - end of the year	<u><u>\$ 1,043,530</u></u>

The Notes to Financial Statements are an integral part of this statement.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2017

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Charter School of Morgan Hill Foundation (the Foundation) is a 501(c)(3) nonprofit organization benefiting students of the South Valley Charter School which is doing business as the Charter School of Morgan Hill (CSMH). The mission of the Foundation is to lead all resource development to support the Charter School of Morgan Hill. CSMH is a California public charter school that uses project-based learning, strong family involvement and community interaction to develop lifelong learners prepared to be successful and innovative participants in the global community.

The Foundation was formed in August 2012 and has a board of directors consisting of eight volunteer members. The Foundation's fundraising efforts help CSMH to provide students with accessibility to technology, enrichment programs, field trips, project oriented and community based hands-on activities as well as improvements to facilities and equipment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented in conformity with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958, Not-for-Profit Entities. The Foundation is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, which represent resources whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Basis of Accounting

The Foundation uses the accrual basis of accounting. Revenues are recognized when promises to give are measurable and funds are available; expenses are recognized in the period incurred, if measurable.

Public Support and Revenue

The Foundation receives substantially all of its revenue from individual donors and local businesses.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Foundation reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2017

Donated Assets

Noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services and Items

The Foundation receives donated services from unpaid volunteers who assist in fund-raising and special projects. No amounts have been recognized in the Statement of Activities because the criteria for recognition under FASB ASC standards have not been satisfied.

The Foundation received donated services from unpaid volunteers who assist in fund-raising and special projects as well as auction items donated for the annual Gala Dinner and Auction. Included in the Statement of Activities are income and expense of \$146,378 which reflects the fair market value of donated auction items.

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk include cash and investments. The Foundation maintains its cash in interest bearing bank deposit accounts. At times, interest bearing accounts may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC).

Cash and Cash Equivalents

The Charter School of Morgan Hill Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consists of sponsorships and donations that have been pledged but not paid as of June 30, 2017. The Foundation computes an allowance for doubtful accounts based on historical uncollectible receivables. Management determined that none of the receivables were uncollectible as of June 30, 2017.

Income Tax Status

The Foundation is tax-exempt under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2017

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the Statement of Financial Position date through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its balance sheet for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Foundation has not yet assessed the potential impact of this guidance on its financial statements.

In August 2016, The FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Foundation has not yet assessed the potential impact of this guidance on its financial statements.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2017

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and investments were comprised of the following as of June 30, 2017.

Account	Balance
Checking	\$ 1,043,530
Total Cash and Cash Equivalent	\$ 1,043,530

The Foundation maintains its bank balances and cash equivalents at Heritage Bank of Commerce and PayPal. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per bank per customer. The Foundation's total cash in the bank at June 30, 2017 was \$1,051,535, which exceeded FDIC coverage by \$801,535. Differences between bank balances and carrying amounts in the Foundation's books are due to reconciling items such as deposits in transit and outstanding checks.