

**CHARTER SCHOOL OF MORGAN HILL
FOUNDATION**

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

JUNE 30, 2018

* * *



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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), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

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 Foundation'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 Foundation'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, 2018, and the changes in its net assets and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

C & A LLP

January 24, 2019
San Jose, California

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Statement of Financial Position
June 30, 2018

Assets

Current assets:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 1,216,695 |
| Accounts receivable | 60 |
| Due from CSMH | 5,135 |
| Prepaid expenses | <u>9,213</u> |

| | |
|--------------|----------------------------|
| TOTAL ASSETS | <u><u>\$ 1,231,103</u></u> |
|--------------|----------------------------|

Liabilities

Current liabilities:

| | |
|---------------------------|--------------|
| Accounts payable | \$ 52,730 |
| Due to CSMH | 2,394 |
| Other current liabilities | <u>5,025</u> |

| | |
|-------------------|---------------|
| TOTAL LIABILITIES | <u>60,149</u> |
|-------------------|---------------|

Net Assets

Temporarily restricted for:

| | |
|---|----------------|
| Classroom supplies for 2018-19 | 23,440 |
| Make it Happen donations | 47,887 |
| Service Appreciation Program | <u>114,273</u> |
| Total temporarily restricted net assets | 185,600 |

| | |
|--------------|----------------|
| Unrestricted | <u>985,354</u> |
|--------------|----------------|

| | |
|------------------|------------------|
| TOTAL NET ASSETS | <u>1,170,954</u> |
|------------------|------------------|

| | |
|----------------------------------|----------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 1,231,103</u></u> |
|----------------------------------|----------------------------|

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, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|------------------------------|-----------------------------------|--------------------------------|
| Support and Revenues | | | |
| Contributions: | | | |
| Annual Giving and Growing Program | \$ 179,534 | \$ 114,273 | \$ 293,807 |
| Classroom Supplies Funding | - | 38,450 | 38,450 |
| Other contributions | 1,533 | - | 1,533 |
| Total Contributions | <u>181,067</u> | <u>152,723</u> | <u>333,790</u> |
| Special Events: | | | |
| Gala Event | 269,662 | 47,887 | 317,549 |
| Family Fun Fest | 35,765 | - | 35,765 |
| Total Special Events | <u>305,427</u> | <u>47,887</u> | <u>353,314</u> |
| Less: Direct Fundraising Costs | <u>(167,738)</u> | <u>-</u> | <u>(167,738)</u> |
| Total Special Events - Net | <u>137,689</u> | <u>47,887</u> | <u>185,576</u> |
| Other Income: | | | |
| Interest | 2,302 | - | 2,302 |
| Net Assets Released From Restrictions | 86,915 | (86,915) | - |
| Total Support and Revenues | <u>407,973</u> | <u>113,695</u> | <u>521,668</u> |
| Expenses | | | |
| Program Services | 362,691 | - | 362,691 |
| Management and General | 23,912 | - | 23,912 |
| Fundraising | 11,057 | - | 11,057 |
| Total Expenses | <u>397,660</u> | <u>-</u> | <u>397,660</u> |
| Change in Net Assets | 10,313 | 113,695 | 124,008 |
| Net Assets - Beginning of the Year | <u>975,041</u> | <u>71,905</u> | <u>1,046,946</u> |
| Net Assets - End of the Year | <u><u>\$ 985,354</u></u> | <u><u>\$ 185,600</u></u> | <u><u>\$ 1,170,954</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, 2018

| Expenses | Program Services | Management and General | Fundraising | Total |
|-----------------------|-----------------------------|---------------------------------------|--------------------|-------------------|
| Contributions to CSMH | \$ 356,490 | \$ - | \$ - | \$ 356,490 |
| Scholarships | 5,000 | - | - | 5,000 |
| Professional Fees | - | 15,804 | - | 15,804 |
| Postage and Delivery | - | 323 | - | 323 |
| Business Meals | 1,201 | 1,378 | - | 2,579 |
| Licenses & Fees | - | 1,893 | - | 1,893 |
| Insurance | - | 2,541 | - | 2,541 |
| Printing and Copying | - | 30 | - | 30 |
| Supplies | - | 1,943 | - | 1,943 |
| Service Charges | - | - | 11,057 | 11,057 |
| Total Expenses | <u>\$ 362,691</u> | <u>\$ 23,912</u> | <u>\$ 11,057</u> | <u>\$ 397,660</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, 2018

| | |
|---|----------------------------|
| Operating Activities | |
| Change in net assets | \$ 124,008 |
| 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 | 1,480 |
| (Increase) decrease in due from CSMH | (1,397) |
| (Increase) decrease in prepaid expenses | (3,326) |
| Increase (decrease) in accounts payable | 49,973 |
| Increase (decrease) in due to CSMH | 2,202 |
| Increase (decrease) in other current liabilities | <u>225</u> |
| Net cash provided by (used for) operating activities | <u>173,165</u> |
| Net increase in cash and cash equivalents | 173,165 |
| Cash and cash equivalents - beginning of the year | <u>1,043,530</u> |
| Cash and cash equivalents - end of the year | <u><u>\$ 1,216,695</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, 2018

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 nine 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 Accounting Standards Codification Section 958 (FASB ASC 958) of Not-for-Profit Organizations. 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.

Permanently Restricted Net Assets - Net assets subject to third party or legal stipulations that they be maintained permanently. As of June 30, 2018, the Foundation had no permanently restricted net assets.

Temporarily Restricted Net Assets - Net assets whose use is limited by third party or legal stipulations that either expire by passage of time or can be fulfilled and released by actions pursuant to those donor-imposed or legal stipulations. There were \$185,600 in temporarily restricted net assets as of June 30, 2018, as listed in the Statement of Financial Position.

Unrestricted Net Assets - Net assets whose use is not subject to third party or legal restrictions.

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.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2018

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.

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 non-cash donations of \$132,483, 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.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2018

Accounts Receivable

Accounts receivable consists of sponsorships and donations that have been pledged but not paid as of June 30, 2018. 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, 2018.

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.

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.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2018

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and investments were comprised of the following as of June 30, 2018:

| <u>Account</u> | <u>Balance</u> |
|--|---------------------|
| Checking | \$ 1,213,969 |
| PayPal | 2,726 |
| <u>Total Cash and Cash Equivalents</u> | <u>\$ 1,216,695</u> |

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 entity. The Foundation's total cash in the bank at June 30, 2018 was \$1,212,234, which exceeded FDIC coverage by \$962,234. 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.