CHARTER SCHOOL OF MORGAN HILL FOUNDATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019

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Chavan & Associates, llp
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

Charter School of Morgan Hill Foundation

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Chavan and Associates, llp
Certified Public Accountants

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, 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. 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.

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, in June 30, 2019, the Foundation adopted new accounting guidance from Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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, 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.

C & A LLP

June 2, 2020
San Jose, California

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CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Statement of Financial Position
June 30, 2019

Assets	
Cash and cash equivalents	$ 1,328,769
Accounts receivable	240
Due from CSMH	10,504
Other assets	5,621
Total Assets	$ 1,345,134
Liabilities	
Accounts payable	$ 16,561
Total Liabilities	16,561
Net Assets	
With donor restrictions	68,075
Without donor restrictions	1,260,498
Total Net Assets	1,328,573
Total Liabilities and Net Assets	$ 1,345,134

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, 2019

Revenues	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Contributions:			
Annual Giving and Growing Program	$ 306,068	$ -	$ 306,068
Classroom Supplies Funding	-	33,346	33,346
Other contributions	501	2,651	3,152
Total Contributions	306,569	35,997	342,566
Special Events:			
Gala Event	267,157	29,505	296,662
Family Fun Fest	35,151	-	35,151
Total Special Events	302,308	29,505	331,813
Less: Direct Fundraising Costs	(166,168)	-	(166,168)
Total Special Events - Net	136,140	29,505	165,645
Interest	3,265	-	3,265
Net Assets Released From Restrictions	183,027	(183,027)	-
Total Revenues	629,001	(117,525)	511,476
Expenses			
Program Services	319,905	-	319,905
Management and General	22,633	-	22,633
Fundraising	11,319	-	11,319
Total Expenses	353,857	-	353,857
Change in Net Assets	275,144	(117,525)	157,619
Net Assets - Beginning of the Year	985,354	185,600	1,170,954
Net Assets - End of the Year	$ 1,260,498	$ 68,075	$ 1,328,573

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, 2019

Expenses	Program Services	Management and General	Fundraising	Total
Contributions to CSMH	$ 308,436	$ -	$ -	$ 308,436
Scholarships	7,000	-	-	7,000
Professional Fees	-	17,634	-	17,634
Postage and Delivery	-	235	189	424
Business Meals	4,469	-	-	4,469
Licenses & Fees	-	75	4,597	4,672
Insurance	-	2,538	-	2,538
Printing and Copying	-	1,856	-	1,856
Supplies	-	147	3,813	3,960
Food and Beverage	-	-	26,043	26,043
Auction Items	-	-	3,575	3,575
Software	-	-	1,999	1,999
Rentals	-	-	2,451	2,451
In-Kind Expenses	-	-	123,501	123,501
Service Charges	-	148	11,319	11,467
Total Expenses	319,905	22,633	177,487	520,025
Direct Event Amounts	-	-	(166,168)	(166,168)
Total Functional Expenses	$ 319,905	$ 22,633	$ 11,319	$ 353,857

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

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Statement of Cash Flows
June 30, 2019

Operating Activities	
Change in net assets	$ 157,619
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	(180)
(Increase) decrease in due from CSMH	(5,369)
(Increase) decrease in other assets	3,592
Increase (decrease) in accounts payable	(41,194)
Increase (decrease) in due to CSMH	(2,394)
Net cash provided by (used for) operating activities	112,074
Net increase in cash and cash equivalents	112,074
Cash and cash equivalents - beginning of the year	1,216,695
Cash and cash equivalents - end of the year	$ 1,328,769

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

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 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) for not-for-profit entities (FASB Topic 958, ASU 2016-14).

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments

When applicable, the Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Receivables and Credit Policies

Accounts receivable consist of sponsorships and donations that have been pledged but not paid as of June 30, 2019. Management has determined the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. As of June 30, 2019 there was no allowance for uncollectable accounts receivable.

Promises to Give and Due from Others

The Foundation records unconditional promises to give and amounts due from others, that are expected to be collected within one year, at net realizable value. Amounts expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in revenue in the Statement of Activities. The Foundation determines the allowance for uncollectable amounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give and amounts due from others are written off when deemed uncollectable. As of June 30, 2019, the allowance for uncollectable accounts was zero.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

The Foundation receives substantially all of its revenue from individual donors and local businesses. Revenue is recognized when earned. When applicable, program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received, when applicable. Auction items donated for the annual Gala Dinner and Auction are included in the Statement of Activities as non-cash donations of $123,501, which reflects the fair market value of donated auction items.

Advertising Costs

Advertising costs are expensed as incurred. During the year ended June 30, 2019 the Foundation has not expensed or incurred any advertising costs.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3) and Section 23701(d) of the California Code, qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private Foundations under IRC Sections 509(a)(1) and (3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Foundation's unrelated business income tax was minimal and immaterial to the financial statements as of June 30, 2019.

Concentrations

For the year ended June 30, 2019, contributions from special events and the Annual Giving and Growing Program comprised 48% and 45% of total revenue, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from organizations, individuals, and Foundations supportive of the Organization's mission.

Implemented New Accounting Pronouncements

In May of 2019, FASB issued Accounting Standards Update (ASU) No. 2019-06—Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities. The objective of the amendments in this Update is to address the concerns of not-for-profit stakeholders that the benefits of the current accounting for goodwill and certain identifiable intangible assets acquired in a business combination do not justify the related costs. Therefore, the amendments in this Update permit a not-for-profit entity to elect the private company alternatives. Under Topic 350, instead of testing goodwill for impairment annually at the reporting unit level, a not-for-profit entity can elect to amortize goodwill on a straight-line basis, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level. Under the Topic 805, a not-for-profit entity can elect to recognize fewer items as separate intangible assets in an acquisition. The amendments in this Update are effective immediately. This Accounting Standards Update is the final version of Proposed Accounting Standards Update 2018-320—*Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, which has been deleted. This ASU did not have a significant impact on the Foundation's financial statements.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The FASB issued this Update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU did not have a significant impact on the Foundation's financial statements.

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in its financial statements accordingly. The ASU has been applied retrospectively to all periods presented which resulted in the reclassification of beginning temporarily restricted net assets to net assets with donor restrictions of $185,600 and beginning unrestricted net assets to net assets without donor restrictions of $985,354.

Relevant Upcoming 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, 2020. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In August 2018, FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* Effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In March 2019, FASB issued Accounting Standards Update (ASU) 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The FASB is issuing this Update to improve the definition of collections in the Master Glossary by realigning it with the definition in the American Alliance of Museums' (AAM) Code of Ethics for Museums (the Code). The FASB also is making a technical correction in Topic 360, Property, Plant, and Equipment, to clarify that the accounting and disclosure guidance for collections in Subtopic 958-360, Not-for-Profit Entities—Property, Plant, and Equipment, applies to business entities as well as not-for-profit entities, consistent with what was indicated in Statement 116. Amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

Subsequent Event

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.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 1,260,694
Accounts receivable	240
Due from CSMH	10,504
Total	$ 1,271,438

As part of its liquidity management plan, the Foundation maintains its cash in checking, savings and money market accounts.

NOTE 4 – FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability.

The Foundation did not have any significant assets or liabilities to measure at June 30, 2019.

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2019:

Net Assets with Donor Restrictions	Amount
Subject to Expenditure for Specified Purpose:	
Class Supplies for 2019-2020	$ 26,996
Ag Learning Center	41,079
Total Net Assets with Donor Restrictions	$ 68,075

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the year ended June 30, 2019:

Net Assets Released from Restrictions	Amount
Satisfaction of Purpose Restrictions:	
Class Supplies for 2018-2019	$ 29,790
Ag Learning Center	7,408
Service Appreciation Program	114,273
Make it Happen Donations	28,905
Other Contributions	2,651
Total Net Assets Released from Restrictions	$ 183,027

NOTE 6 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, and other personnel costs, which are allocated on the basis of total direct programmatic or functional costs.