

**CHARTER SCHOOL OF MORGAN HILL
FOUNDATION**

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

JUNE 30, 2020

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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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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, 2020, 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.



Chavan and Associates, LLP
Certified Public Accountants

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, 2020, 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

May 11, 2021
San Jose, California

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Statement of Financial Position
June 30, 2020

Assets	
Cash and cash equivalents	\$ 790,184
Investments	750,000
Accounts receivable	5,350
Due from CSMH	10,504
Other assets	3,548
	<hr/>
Total Assets	<u>\$ 1,559,586</u>
 Liabilities	
Accounts payable	\$ 14,109
Due to CSMH	215
	<hr/>
Total Liabilities	<u>14,324</u>
 Net Assets	
With donor restrictions	41,329
Without donor restrictions	1,503,933
	<hr/>
Total Net Assets	<u>1,545,262</u>
	<hr/>
Total Liabilities and Net Assets	<u>\$ 1,559,586</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions:			
Annual Giving and Growing Program	\$ 306,812	\$ 24,101	\$ 330,913
Classroom Supplies Funding	-	7,295	7,295
Other contributions	745	2,125	2,870
Total Contributions	307,557	33,521	341,078
Special Events:			
Gala Event	278,109	500	278,609
Family Fun Fest	-	-	-
Less: Direct Fundraising Costs	(160,233)	-	(160,233)
Total Special Events - Net	117,876	500	118,376
Interest	11,286	-	11,286
Net Assets Released From Restrictions	60,767	(60,767)	-
Total Revenues	497,486	(26,746)	470,740
Expenses			
Program Services	200,058	-	200,058
Management and General	41,625	-	41,625
Fundraising	12,368	-	12,368
Total Expenses	254,051	-	254,051
Change in Net Assets	243,435	(26,746)	216,689
Net Assets - Beginning of the Year	1,260,498	68,075	1,328,573
Net Assets - End of the Year	<u>\$ 1,503,933</u>	<u>\$ 41,329</u>	<u>\$ 1,545,262</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, 2020

Expenses	Program Services	Management and General	Fundraising	Total
Contributions to CSMH	\$ 192,715	\$ -	\$ -	\$ 192,715
Scholarships	5,000	-	-	5,000
Professional Fees	-	38,585	5,050	43,635
Business Meals	2,340	-	-	2,340
Licenses & Fees	-	75	4,263	4,338
Insurance	-	2,539	-	2,539
Printing and Copying	-	420	-	420
Supplies	-	-	85	85
Food and Beverage	-	-	23,473	23,473
Auction Items	-	-	2,949	2,949
Software	-	-	1,999	1,999
Rentals	-	-	100	100
In-Kind Expenses	-	-	122,314	122,314
Service Charges	3	6	12,368	12,377
Total Expenses	200,058	41,625	172,601	414,284
Direct Event Amounts	-	-	(160,233)	(160,233)
Total Functional Expenses	\$ 200,058	\$ 41,625	\$ 12,368	\$ 254,051

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

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Statement of Cash Flows
June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 216,689
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	(5,110)
(Increase) decrease in other assets	2,073
Increase (decrease) in accounts payable	(2,452)
Increase (decrease) in due to CSMH	215
	<hr/>
Net cash provided by (used for) operating activities	211,415
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	<hr/> (750,000)
Net cash provided by (used for) investing activities	<hr/> (750,000)
Net increase in cash and cash equivalents	(538,585)
Cash and cash equivalents - beginning of the year	<hr/> 1,328,769
Cash and cash equivalents - end of the year	<hr/> <hr/> \$ 790,184

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

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2020

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, 2020. 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, 2020 there was no allowance for uncollectable accounts receivable.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2020

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, 2020, 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 totaling \$122,314, which were

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2020

donated for the Gala Dinner and Auction, are included in Gala Event revenue in the Statement of Activities. This amount reflects the fair market value of the donated auction items.

Advertising Costs

Advertising costs are expensed as incurred. During the year ended June 30, 2020 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, 2020.

Concentrations

For the year ended June 30, 2020, contributions from the Annual Giving and Growing Program, and net revenue from the Gala Event comprised 70% and 25% 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.

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2020

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, 2019. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In January 2018, FASB issued Accounting Standards Update (ASU) 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. ASU 2018-01 allows for an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. ASU 2018-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Foundation does not anticipate this ASU will have a significant impact on its financial statements.

In August 2018, FASB issued Accounting Standards Update 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 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

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2020

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	\$ 748,855
Operating investments	750,000
Accounts receivable	5,350
Due from CSMH	<u>10,504</u>
Total	<u>\$ 1,514,709</u>

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

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

CHARTER SCHOOL OF MORGAN HILL FOUNDATION
Notes to Financial Statements
June 30, 2020

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 invests in CDs traded in the financial markets. Those CDs are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2020.

Description	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
Operating Investments:				
Money market funds (at cost)	\$ 505,653	\$ -	\$ -	\$ -
Certificates of deposit	1,004,113	-	1,004,113	-
Total	\$ 1,509,766	\$ -	\$ 1,004,113	\$ -

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2020:

Net Assets with Donor Restrictions	Amount
Subject to Expenditure for Specified Purpose:	
Ag Learning Center	\$ 41,329
Total Net Assets with Donor Restrictions	\$ 41,329

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, 2020:

Net Assets Released from Restrictions	Amount
Satisfaction of Purpose Restrictions:	
Class Supplies for 2019-2020	\$ 34,291
Ag Learning Center	250
Make it Happen Donations	24,101
Other Contributions	2,125
Total Net Assets Released from Restrictions	\$ 60,767

CHARTER SCHOOL OF MORGAN HILL FOUNDATION

Notes to Financial Statements

June 30, 2020

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.