

Charter School of Morgan Hill
(South Valley Charter School)
County of Santa Clara, Morgan Hill, California

Audited Financial Statements & Report
June 30, 2017



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**CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
SANTA CLARA COUNTY**

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Financial Section



INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Valley Charter School
Morgan Hill, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South Valley Charter School (the Charter School), 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 opinions 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 the Charter School 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017 on our consideration of the Charter School'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 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 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 School's internal control over financial reporting and compliance.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The compliance section as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the 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.

C & A LLP

December 11, 2017
San Jose, California

Basic Financial Statements

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current assets:

Cash and cash equivalents available for operations	\$ 527,615
Due from grantor government	272,303
Prepaid expenses and other current assets	130,002
Total current assets	929,920

Noncurrent Assets:

Restricted cash	237,970
Capital assets - net	1,098,493

Total Assets	\$ 2,266,383
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LIABILITIES

Current liabilities:

Accounts payable	\$ 218,050
Due to other governments	77,168
Unearned revenue	10,429

Total Liabilities	305,647
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NET ASSETS

Restricted for contingencies	200,038
Restricted for clean energy programs	37,932
Unrestricted	1,722,766

Total Net Assets	1,960,736
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Total Liabilities and Net Assets	\$ 2,266,383
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The accompanying notes are an integral part of these financial statements.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES			
LCFF Sources	\$ 4,622,450	\$ -	\$ 4,622,450
Federal Revenue	-	157,525	157,525
State Revenue:			
Special education	-	354,314	354,314
Lottery revenue	-	130,695	130,695
All other state	448,846	-	448,846
Local Revenue:			
Contributions	325,198	-	325,198
Interest	673	-	673
Net Assets Released from Restrictions	643,157	(643,157)	-
Total Revenues	<u>6,040,324</u>	<u>(623)</u>	<u>6,039,701</u>
EXPENSES			
Program expenses			
Educational programs	5,189,372	-	5,189,372
Supporting services			
Management and general expenses	824,434	-	824,434
Fundraising	838	-	838
Total Expenses	<u>6,014,644</u>	<u>-</u>	<u>6,014,644</u>
Change in Net Assets	25,680	(623)	25,057
Net Assets - Beginning	<u>1,697,086</u>	<u>238,593</u>	<u>1,935,679</u>
Net Assets - Ending	<u>\$ 1,722,766</u>	<u>\$ 237,970</u>	<u>\$ 1,960,736</u>

The accompanying notes are an integral part of these financial statements.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Program Expenses			Supporting Services	Fundraising	Total Expenses
	Federal, State & Locally Funded	Foundation Funded	Total Program Expenses			
Certificated Salaries	\$ 2,639,768	\$ -	\$2,639,768	\$ 272,117	\$ -	\$2,911,885
Classified Salaries	435,338	-	435,338	293,861	-	729,199
Employee Benefits	989,086	-	989,086	118,914	-	1,108,000
Books and Supplies	271,624	25,979	297,603	-	-	297,603
Services and Other Operating Expenses	592,665	234,912	827,577	139,542	838	967,957
Total Expenses	\$ 4,928,481	\$ 260,891	\$5,189,372	\$ 824,434	\$ 838	\$6,014,644

The accompanying notes are an integral part of these financial statements.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ 25,057
Depreciation expense	50,547
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in due from grantor government	64,525
(Increase) decrease in prepaid expenses and other current assets	(14,592)
Increase (decrease) in accounts payable	50,381
Increase (decrease) in due to other governments	64,665
Increase (decrease) in unearned revenue	(30,421)
Net cash used for (provided by) operating activities	<u>210,162</u>
Cash flows from investing activities:	
Purchases of property, plant and equipment	<u>(76,522)</u>
Net cash (used for) provided by investing activities	<u>(76,522)</u>
Net increase (decrease) in cash and cash equivalents	133,640
Cash and cash equivalents - beginning of year	<u>631,945</u>
Cash and cash equivalents - end of year	<u>\$ 765,585</u>
Summary of cash and cash equivalents:	
Cash and cash equivalents available for operations	\$ 527,615
Restricted cash	237,970
Total cash and cash equivalents	<u>\$ 765,585</u>

The accompanying notes are an integral part of these financial statements.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2017

	<u>Student Body Funds</u>
ASSETS	
Cash on hand and in banks	\$ 2,386
Total Assets	<u>\$ 2,386</u>
LIABILITIES	
Due to student groups	\$ 2,386
Total Liabilities	<u>\$ 2,386</u>

The accompanying notes are an integral part of these financial statements.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The South Valley Charter School was organized in August, 2001, for the establishment and operation of a Grade K-8 Charter School according to Senate Bill 1448 and under the laws of the State of California as a non-profit organization. As such, the Charter School received certain public funding but is exempt from state laws governing Public Schools. The Charter School is governed by a Board with six (6) Directors.

A. Reporting Entity

The Charter School includes all funds that are controlled by or dependent on the Charter School's governing board for financial reporting purposes. The Charter School has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. The Charter School determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

B. Accounting Principles

The Charter School accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the Charter School conform to accounting principles generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants, which require the use of the accrual method of accounting. Under the accrual method of accounting, revenue is recognized when earned and expenses are recognized in the period incurred.

C. Contributions

The Charter School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires because a time restriction ends or a purpose 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.

D. Concentrations of Credit Risk

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

E. Cash and Cash Equivalents

For financial statement purposes, the Charter School considers investments with a maturity of three months or less to be cash equivalents.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

F. Investments

Investments held by a broker in customer accounts are protected against physical loss by the Securities Investor Protection Corporation (SIPC). The Charter School held no investments as of June 30, 2017. The following methods and significant assumptions were used to estimate the fair values of financial assets and financial liabilities:

1. Assets for which carrying amounts approximate fair values include cash and cash equivalents and certain other assets that mature within 90 days.
2. For investment securities for which it was practicable to determine fair value, fair value is based either on exchange-traded prices or broker-dealer quotations for the same or similar securities.
3. For accounts receivable, accounts payable and accrued expenses, fair value approximates carrying value due to the relatively short period of time between their origination and expected realization.

G. Accounts Receivable and Due from Grantor Government

Management believes that all amounts are fully collectible and it is the Charter School's policy to charge off uncollectible accounts when it is determined they will not be collected.

H. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	5-20
Buildings	30-50
Portable buildings	30
Building improvements	20
Furniture and fixtures	20
Playground equipment	5-20
Field and grounds equipment	3-20
Food services equipment	5-15
Transportation equipment	15
Telephone system	10
Vehicles	8-10
Computer system and equipment	3-5
Office equipment	5

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

I. Basis of Presentation

The financial statements are presented in conformity with Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958) of Not-For-Profit Organizations. Under FASB ASC 958, the Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Permanently Restricted Net Assets - Net assets subject to third party or legal stipulations that they be maintained permanently. There were no permanently restricted net assets as of June 30, 2017.

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. Temporarily restricted net assets consisted of \$237,970 which includes \$200,038 for a 3% reserve for contingencies and \$37,932 restricted for the California Proposition 39 Energy Program.

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

Revenues are reported as increases in unrestricted net assets unless their use is limited by third party restrictions. Expenses are reported as decreases in unrestricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement of activities.

J. Budget and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By State law, the Charter School's Board of Directors must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The Charter School's Board of Directors satisfied these requirements.

K. Income Tax Status

South Valley Charter School is publicly supported and has received tax-exempt status 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.

L. Functional Allocation of Expenses

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

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

N. 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 Charter School 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 Charter School has not yet assessed the potential impact of this guidance on its financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

The carrying amount of the Charter School's total cash was \$765,585 at June 30, 2017 and included restricted cash of \$237,970. The bank balance, before reconciling items, was \$832,969 at June 30, 2017 of which \$375,411 was not covered by Federal Deposit Insurance Corporation (FDIC). The FDIC covers up to \$250,000 per bank.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - DUE FROM GRANTOR GOVERNMENT

Due from grantor government consisted of the following as of June 30, 2017:

LCFF state aid	\$	71,637
Special education		135,605
Lottery revenue		61,551
Others		<u>3,510</u>
 Total due from grantor government	 \$	 <u><u>272,303</u></u>

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets consisted of the following as of June 30, 2017:

	Balance July 01, 2016	Additions	Adjustments & Deletions	Balance June 30, 2017
Capital Assets				
Buildings and improvements	\$ 1,086,575	\$ 23,775	\$ -	\$ 1,110,350
Furniture and equipment	104,832	52,747	-	157,579
<u>Total capital assets</u>	<u>1,191,407</u>	<u>76,522</u>	<u>-</u>	<u>1,267,929</u>
Less accumulated depreciation for:				
Buildings and improvements	79,667	38,285	-	117,952
Furniture and equipment	39,222	12,262	-	51,484
<u>Total accumulated depreciation</u>	<u>118,889</u>	<u>50,547</u>	<u>-</u>	<u>169,436</u>
<u>Total capital assets - net depreciation</u>	<u>\$ 1,072,518</u>	<u>\$ 25,975</u>	<u>\$ -</u>	<u>\$ 1,098,493</u>

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable consisted of the following as of June 30, 2017:

Accounts payable	\$	181,687
Payroll liabilities		1,946
Others		<u>34,417</u>
 Total accounts payable	 \$	 <u><u>218,050</u></u>

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - DUE TO OTHER GOVERNMENTS

Due to other governments consisted of the following as of June 30, 2017:

Accrued employer contributions to STRS	\$ 64,124
Morgan Hill Unified School District - oversight fee	12,503
Others	<u>541</u>
Total due to other governments	<u><u>\$ 77,168</u></u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue consisted of the following as of June 30, 2017:

Fundraising program: Summer camp	\$ 7,895
Fundraising program: Washington D.C. trip	2,231
Fundraising program	<u>303</u>
Total unearned revenue	<u><u>\$ 10,429</u></u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards and Grants

The Charter School 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 will not be material.

Commitments

According to the Facility Use Agreement between the Board of Directors of the Charter School and the Board of Trustees of the Morgan Hill Unified School District, the Charter School shall pay the School District an amount equal to 3% of certain Charter School revenues which include revenues from LCFE Sources. Payment shall be made by the Charter School at the end of each fiscal year.

Contingencies

The Charter School maintains a minimum reserve for contingencies which is based on a percentage of expenditures. For the fiscal year ended June 30, 2017, the Charter School maintained a reserve of 3% of expenditures. The cash restricted for contingencies was \$200,038 at June 30, 2017.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLANS

Qualified employees are covered under cost-sharing multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

Plan Description and Provisions - State Teachers' Retirement System (STRS)

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

Funding Policy. Active plan members are required to contribute PEPRA 9.205% or classic 10.25% of their salary and the Charter School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016-17 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter School's contribution to STRS for the fiscal years ending June 30, 2017, 2016 and 2015 were \$361,371, \$245,992 and \$212,809 and equals 100% of the required contributions for the year.

403(b) and 457(b) Retirement Plans

All full time employees are allotted a supplement to cover medical insurance premiums. If employees waive those premiums because they are covered by other plans, or if their premiums are less than the supplement, the full amount or the balance is contributed into a 403b or 457b Retirement Plan or taken as ordinary income, based on the employee's choice.

NOTE 10 - SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements 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.

Compliance Section

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
ORGANIZATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

South Valley Charter School was established in August 2001, under an agreement with Morgan Hill Unified School District and is located in Morgan Hill, California. The Charter School is on record with the California Department of Education as the Charter School of Morgan Hill. Its CDS code is 43-69583-6118541-0363 and its certificate number is 6402179E. The Charter School operated one school during 2016-17 for grades kindergarten through eight. There are nine members of the Governing Board.

GOVERNING BOARD

<u>Name</u>	<u>Title</u>	<u>Term</u>	<u>Term Expiration</u>
Jonathan Hinthorne	Director	2 Years	August 2018
Shawn Larsen	Director	2 Years	August 2017
Peng Lim	Director	2 Years	August 2018
Ryan McNamara	Director	2 Years	August 2017
Claude Solanas	Director	2 Years	August 2018
Brian Sullivan	Director	2 Years	August 2017
Paige Cisewski	Executive Director	Open	Nonvoting
Vivianne Brager	Secretary	Open	Nonvoting
Mary Roensch	CFO	Open	Nonvoting

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Total ADA		Classroom Based	
	Second		Second	
	Period	Annual	Period	Annual
	Report	Report	Report	Report
Regular ADA:				
Grades TK/K through three	280.58	280.14	278.68	278.18
Grades four through six	211.96	211.61	210.84	210.62
Grades seven and eight	122.89	122.78	122.89	122.78
ADA Totals	615.43	614.53	612.41	611.58

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Grade Level	Minutes Requirements	2017 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	59,580	180	In compliance
Grade 1	50,400	59,580	180	In compliance
Grade 2	50,400	59,580	180	In compliance
Grade 3	50,400	59,580	180	In compliance
Grade 4	54,000	59,580	180	In compliance
Grade 5	54,000	59,580	180	In compliance
Grade 6	54,000	59,580	180	In compliance
Grade 7	54,000	58,050	180	In compliance
Grade 8	54,000	58,050	180	In compliance

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO COMPLIANCE SECTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes at 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.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of Education Code Sections 46200 through 46206.

***Other Independent
Auditor's Reports***



**INDEPENDENT AUDITOR'S 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***

Board of Directors
South Valley Charter School
Morgan Hill, 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 the South Valley Charter School (the Charter School), 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 and have issued our report thereon dated December 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the audit 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 a 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 School'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A UP

December 11, 2017
San Jose, California



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

Board of Directors
 South Valley Charter School
 Morgan Hill, California

Compliance

We have audited the South Valley Charter School's (the Charter School) compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the Charter School’s state programs identified below for the year ended June 30, 2017.

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 applicable program as identified in the State’s audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit guide, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the Charter School’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Charter School’s compliance with those requirements.

In connection with the compliance audit referred to above, we selected and tested transactions and records to determine the Charter School’s compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other than Charter Schools:	
Attendance	N/A
Teacher Certification and Misassignments	N/A
Kindergarten Continuance	N/A
Independent Study	N/A
Continuation Education	N/A
Instructional Time	N/A



<u>Description</u>	<u>Procedures Performed</u>
Instructional Materials	N/A
Ratios of Administrative Employees to Teachers	N/A
Classroom Teacher Salaries	N/A
Early Retirement Incentive	N/A
Gann Limit Calculation	N/A
School Accountability Report Card	N/A
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	N/A
Transportation Maintenance of Effort	N/A
Mental Health Expenditures	N/A
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
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	N/A
Immunization	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for the Nonclassroom-Based Instruction/Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, South Valley Charter School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2017.

C & A LLP

December 11, 2017
 San Jose, California

*Findings and
Recommendations*

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weaknesses?	_____ Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

No Expenditures of Federal Awards of \$750,000 or more.

State Awards

Internal control over state programs:		
Material weaknesses?	_____ Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None
Type of auditor's report issued on compliance over state programs:	<u>Unmodified</u>	

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

Section IV - State Award Findings and Questioned Costs

No findings noted.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

No findings noted.