

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

Audited Financial Statements & Report
June 30, 2015



C.G. UHLENBERG, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
SANTA CLARA COUNTY

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Financial Section



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY J. IRA, C.P.A. • KATHERINE CHAO, C.P.A.

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, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2015, and the changes in its net assets and its cash



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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 November 20, 2015 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. G. Uhlenberg LLP

November 20, 2015
Redwood City, California

Basic Financial Statements

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current assets:

Cash and cash equivalents available for operations	\$ 341,398
Due from grantor government	542,538
Prepaid expenses and other current assets	<u>76,977</u>
Total current assets	960,913

Noncurrent Assets:

Restricted cash	192,075
Capital assets - net	<u>695,297</u>

Total Assets	<u><u>\$ 1,848,285</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 107,997
Due to other governments	58,893
Unearned revenue	<u>11,299</u>

Total Liabilities	<u>178,189</u>
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NET ASSETS

Restricted for contingencies	142,000
Restricted for clean energy programs	50,075
Unrestricted	<u>1,478,021</u>

Total Net Assets	<u>1,670,096</u>
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Total Liabilities and Net Assets	<u><u>\$ 1,848,285</u></u>
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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, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUES			
LCFF Sources	\$ 3,888,527	\$ -	\$ 3,888,527
Federal Revenue	-	75,608	75,608
State Revenue:			
Special education	-	327,474	327,474
Lottery revenue	83,158	67,817	150,975
Local Revenue:			
Contributions	-	339,438	339,438
Interest	-	1,067	1,067
Net Assets Released from Restrictions	741,339	(741,339)	-
Total Revenues	<u>4,713,024</u>	<u>70,065</u>	<u>4,783,089</u>
EXPENSES			
Program expenses			
Educational programs	4,217,412	-	4,217,412
Supporting services			
Management and general expenses	490,855	-	490,855
Fundraising	1,213	-	1,213
Total Expenses	<u>4,709,480</u>	<u>-</u>	<u>4,709,480</u>
Change in Net Assets	3,544	70,065	73,609
Net Assets - Beginning	<u>1,474,477</u>	<u>122,010</u>	<u>1,596,487</u>
Net Assets - Ending	<u>\$ 1,478,021</u>	<u>\$ 192,075</u>	<u>\$ 1,670,096</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, 2015

	<u>Program Expenses</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Certificated Salaries	\$ 2,300,384	\$ 144,400	\$ -	\$ 2,444,784
Classified Salaries	453,147	185,995	-	639,142
Employee Benefits	667,072	58,822	-	725,894
Books and Supplies	84,527	-	-	84,527
Services and Other Operating Expenses	<u>712,282</u>	<u>101,638</u>	<u>1,213</u>	<u>815,133</u>
Total Expenses	<u>\$ 4,217,412</u>	<u>\$ 490,855</u>	<u>\$ 1,213</u>	<u>\$ 4,709,480</u>

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, 2015

Cash flows from operating activities:	
Change in net assets	\$ 73,609
Depreciation expense	16,731
Adjustments:	
Increase in due from grantor government	(5,698)
Decrease in prepaid expenses and other current assets	39,742
Decrease in accounts payable	(28,455)
Increase in due to other governments	3,738
Decrease in unearned revenue	(115,177)
Net cash used for operating activities	<u>(15,510)</u>
Cash flows from investing activities:	
Purchases of property, plant and equipment	<u>(392,485)</u>
Net cash used for investing activities	<u>(392,485)</u>
Net decrease in cash and cash equivalents	(407,995)
Cash and cash equivalents - beginning of year	<u>941,468</u>
Cash and cash equivalents - end of year	<u><u>\$ 533,473</u></u>
Summary of cash and cash equivalents:	
Cash and cash equivalents available for operations	\$ 341,398
Restricted cash	<u>192,075</u>
Total cash and cash equivalents	<u><u>\$ 533,473</u></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, 2015

	<u>Student Body Funds</u>
ASSETS	
Cash on hand and in banks	\$ 2,128
Total Assets	<u>\$ 2,128</u>
LIABILITIES	
Other payables	\$ 2,062
Due to student groups	<u>66</u>
Total Liabilities	<u>\$ 2,128</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, 2015

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 seven (7) 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, 2015

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, 2015. 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	15
Transportation equipment	15
Telephone system	10
Vehicles	8
Computer system and equipment	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, 2015

As of June 30, 2015, capital assets consisted of buildings and improvements in the amount of \$777,599. The depreciated value of buildings and improvements was \$695,297, which is net accumulated depreciation of \$82,302. Depreciation expense for the fiscal year ended June 30, 2015 was \$16,731.

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, 2015.

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 \$142,000 for the 3% reserve required by the Memorandum of Understanding between the Charter School and Morgan Hill Unified School District, and \$50,075 for clean energy programs.

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

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

NOTE 2 - CASH AND CASH EQUIVALENTS

The carrying amount of the Charter School's total cash was \$533,474 at June 30, 2015 and included restricted cash of \$192,075. The bank balance, before reconciling items, was \$704,531 at June 30, 2015 of which \$195,645 was not covered by Federal Deposit Insurance Corporation (FDIC). The FDIC covers up to \$250,000 per bank.

NOTE 3 - DUE FROM GRANTOR GOVERNMENT

Due from grantor government consisted of the following as of June 30, 2015:

LCFF state aid	\$	65,142
Special education		117,987
Lottery revenue		52,510
In-lieu of property taxes		303,267
Others		3,632
		3,632
Total due from grantor government	\$	542,538

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital assets consisted of the following as of June 30, 2015:

Capital Assets	Balance July 01, 2014	Adjustments & Additions	Deletions	Balance June 30, 2015
Work-in-progress - not depreciable	\$ 65,532	\$ 392,485	\$ -	\$ 458,017
Buildings and improvements	220,164	-	-	220,164
Furniture and equipment	99,418	-	-	99,418
Total capital assets	385,114	392,485	-	777,599
Less accumulated depreciation for:				
Buildings and improvements	40,922	7,339	-	48,261
Furniture and equipment	24,649	9,392	-	34,041
Total accumulated depreciation	65,571	16,731	-	82,302
Total capital assets - net depreciation	\$ 319,543	\$ 375,754	\$ -	\$ 695,297

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable consisted of the following as of June 30, 2015:

Accounts payable	\$ 87,267
Payroll liabilities	1,146
Others	<u>19,584</u>
Total accounts payable	<u><u>\$ 107,997</u></u>

NOTE 6 - DUE TO OTHER GOVERNMENTS

Due to other governments consisted of the following as of June 30, 2015:

Accrued employer contributions to STRS	\$ 46,388
Morgan Hill Unified School District - oversight fee	<u>12,505</u>
Total due to other governments	<u><u>\$ 58,893</u></u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue consisted of the following as of June 30, 2015:

Fundraising program: summer camp	\$ 7,650
Fundraising program: Washington D.C. trip	<u>3,649</u>
Total unearned revenue	<u><u>\$ 11,299</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 LCFF Sources. Payment shall be made by the Charter School at the end of each fiscal year.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Contingencies

According to the Memorandum of Understanding 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 maintain a minimum reserve which shall be calculated as a percentage of expenditures. For the fiscal year ended June 30, 2015, the Charter School is required to reserve 3% of expenditures. The cash restricted for contingencies was \$142,000 at June 30, 2015.

NOTE 9 - RETIREMENT PLANS

Qualified employees are covered under cost-sharing multiple-employer contributory retirement plans maintained by agencies of the State of California. Certified 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 8.15% 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 2014-15 was 8.88% 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, 2015, 2014 and 2013 were \$212,809, \$178,516 and \$169,943 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, 2015

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 2014-15 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>
Craig Weber	Chairman	2 Years	August 2015
Albert Balagso	Vice-President	2 Years	August 2015
Claude Solanas	Board Secretary	2 Years	August 2016
Peng Lim	Director	2 Years	August 2016
Brian Sullivan	Director	2 Years	August 2015
Eva Swope	Director	2 Years	August 2016
Paige Cisewski	Director/Principal	Open	n/a
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, 2015

	Second Period Report		Annual Report	
	Classroom		Classroom	
	Based	Total	Based	Total
	Instruction	ADA	Instruction	ADA
Elementary:				
Kindergarten through three	276.16	277.80	276.93	278.54
Grades four through six	187.26	187.76	187.50	187.88
Grades seven and eight	115.94	115.94	115.87	115.87
ADA Totals	579.36	581.50	580.30	582.29

**CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>Grade Level</u>	<u>1986-1987 Minutes Requirements</u>	<u>1982-1983 Actual Minutes</u>	<u>2014-15 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	34,971	N/A	59,340	180	In compliance
Grades 1 through 3	48,960	N/A	59,340	180	In compliance
Grades 4 and 5	52,457	N/A	59,340	180	In compliance
Grades 6 through 8	52,457	N/A	60,596	180	In compliance

Charter Schools must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Educational Code Section 46201.

For the 2014–15 school year, a school district, county office of education, or charter school may reduce the equivalent of up to five days of instruction or the equivalent number of instructional minutes without incurring the penalties set forth in Sections 41420, 46200, 46200.5, 46201, 46201.5, 46202, and 47612.5.

CHARTER SCHOOL OF MORGAN HILL
(SOUTH VALLEY CHARTER SCHOOL)
NOTES TO COMPLIANCE SECTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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.

Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs when expenditures of federal awards equal \$500,000 or more. This schedule, when required, is prepared to comply with OMB Circular A-133 requirements. The Charter School's expenditures of federal awards were not \$500,000 or more for the year ended June 30, 2015.

Schedule of Excess Sick Leave

This schedule provides information on whether the Charter School grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers' Retirement System.

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



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY J. IRA, C.P.A. • KATHERINE CHAO, C.P.A.

**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, 2015, 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 November 20, 2015.

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



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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. G. Uhlenberg LLP

November 20, 2015
Redwood City, California



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**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 State compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2014-15*, published by the Education Audit Appeals Panel, for the year ended June 30, 2015. The applicable State compliance requirements are identified in the table below.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the Charter School’s management.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Charter School’s compliance with the State laws and regulations based on our audit. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2014-15*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2014-15*, 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
Instructional Materials	N/A
Ratios of Administrative Employees to Teachers	N/A
Classroom Teacher Salaries	N/A



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<u>Description</u>	<u>Procedures Performed</u>
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
Regional Occupational Centers or Programs Maintenance of Effort	N/A
Adult Education Maintenance of Effort	N/A
School Districts, County Offices of Education, and Charter Schools:	
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
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	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, 2015.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2014-15*. Accordingly, this report is not suitable for any other purpose.

C. G. Uhlenberg LLP

November 20, 2015
Redwood City, 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, 2015

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 \$500,000 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, 2015

No findings noted.