

# CHARTER FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2019



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# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of  
Charter Foundation  
Sebastopol, California

We have reviewed the accompanying financial statements of Charter Foundation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

## **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.

## **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

## **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



**Goranson and Associates, Inc.**

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

## Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from Charter Foundation's financial statements for the year ended June 30, 2018, we found no material modifications required on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

*Goranson and Associates, Inc.*

October 17, 2019

Santa Rosa, CA



CHARTER FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019

(With summarized comparative totals for June 30, 2018)  
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 148,299	\$ 396,021
Accounts receivable	13,371	118,470
Prepaid expenses	600	2,062
Total current assets	162,270	516,553
Fixed assets:		
Building, land and improvements	2,525,000	5,404,215
Equipment	3,132	3,132
Furniture and equipment	7,095,349	4,432,159
Subtotal	9,623,481	9,839,506
Less accumulated depreciation	(209,050)	(944,356)
Net fixed assets	9,414,431	8,895,150
Non-current assets		
Other assets	-	34,740
Total other assets	-	34,740
Total assets	\$ 9,576,701	\$ 9,446,443

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019

(With summarized comparative totals for June 30, 2018)  
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable		\$ 1,072
Security deposits	\$ 18,333	25,960
Class funds	11,528	11,000
Total current liabilities	29,861	38,032
Long-term debt	4,275,995	4,792,022
Total liabilities	4,305,856	4,830,054
Net assets:		
Without donor restriction:		
Undesignated	4,968,845	4,314,389
Designated for SC grant reserve	200,000	200,000
Designated for Building Maintenance	102,000	102,000
Total net assets	5,270,845	4,616,389
Total liabilities and net assets	\$ 9,576,701	\$ 9,446,443

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019  
(with summarized comparative totals for the year ended June 30, 2018)  
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

	<u>2019</u>	<u>2018</u>
SUPPORT AND REVENUE:		
Pledges	\$ 283,471	\$ 305,792
Lease Income	223,196	229,268
Special events (net of \$2,160 direct expenses)	12,438	23,553
Capital campaign	103,582	37,898
Interest Income	-	1,358
Investment income	3,791	5,563
Contract Income	84,835	111,530
Grants	1,106	1,115
Sale of building	459,966	-
Fundraising & miscellaneous Income	5,116	2,830
Total support and revenue	<u>1,177,501</u>	<u>718,907</u>
EXPENSES:		
Program	442,982	364,148
Management and general	78,119	68,006
Fundraising	1,944	1,498
Total expenses	<u>523,045</u>	<u>433,652</u>
CHANGE IN NET ASSETS	654,456	285,255
NET ASSETS, beginning	<u>4,616,389</u>	<u>4,331,134</u>
NET ASSETS, ending	<u>\$ 5,270,845</u>	<u>\$ 4,616,389</u>

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019  
(with summarized comparative totals for the year ended June 30, 2018)  
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

	Program	Management and General	Fundraising	2019 Total	2018 Total
Wages		\$ 62,098		\$ 62,098	\$ 39,788
Payroll taxes		5,292		5,292	3,492
Workers compensation		516		516	485
Charter school grant		-		-	20,467
Bank charge		89		89	1,541
Class funding	\$ 2,980	-		2,980	2,500
Depreciation	199,750	-		199,750	119,534
Fundraising	-	-	\$ 1,944	1,944	1,498
Liability insurance	-	1,710	-	1,710	1,844
Licences & permits	-	-	-	-	126
Maintenance	2,201	-	-	2,201	2,890
Miscellaneous	-	4,875	-	4,875	17,119
Office supplies	-	2,554	-	2,554	2,623
Postage and delivery	-	985	-	985	988
Professional fees	4,019	-	-	4,019	3,901
Property insurance	11,542	-	-	11,542	1,361
Property taxes	-	-	-	-	38,890
Mortgage & loan interest	216,451	-	-	216,451	149,158
Utilities	6,039	-	-	6,039	25,447
Total expenses	<u>\$ 442,982</u>	<u>\$ 78,119</u>	<u>\$ 1,944</u>	<u>\$ 523,045</u>	<u>\$ 433,652</u>

The accompanying notes are an integral part of these financial statements



CHARTER FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019  
(with summarized comparative totals for the year ended June 30, 2018)  
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 654,456	\$ 285,255
Adjustments to reconcile change in net assets to cash from operations		
Depreciation and amortization	199,750	119,534
Gain on sale of assets	(459,966)	-
Investment income	-	454
(Increase) decrease in:		
Accounts and grants receivable	105,099	(105,662)
Prepaid retainers	1,462	4,000
Assets held for sale	34,740	18,512
Increase (decrease) in:		
Accounts payable	(1,072)	(9,382)
Other current liabilities	(7,627)	9,300
Total cash provided by operations	<u>526,842</u>	<u>322,011</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchase) disposal of property, plant and equipment	(2,842,670)	(3,274,658)
Sales proceeds from sale of assets	2,585,000	-
Sale of investments	-	458,020
Total cash used by investing activities	<u>(257,670)</u>	<u>(2,816,638)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	475,000	2,288,507
Principal payments on long-term debt	(992,022)	(21,485)
Increase in class funds	528	(1,000)
Total cash provided by investing activities	<u>(516,494)</u>	<u>2,266,022</u>
NET CHANGE IN CASH	(247,322)	(228,605)
CASH, beginning of year	<u>396,021</u>	<u>624,626</u>
CASH, end of year	<u>\$ 148,699</u>	<u>\$ 396,021</u>
Supplemental information:		
Cash paid for interest	<u>\$ 216,451</u>	<u>\$ 149,158</u>

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE 1 ORGANIZATION

The Charter Foundation (Foundation) was formed as a nonprofit public benefit corporation on November 10, 1999 to provide facilities and resources to charter school programs which use the Waldorf Curriculum. It is the designated fundraising entity for individual charter schools and will solicit private funds for the use and support of such school programs. The primary focus of the Foundation is to invest these private funds in the purchase and construction of facilities for educational purposes.

The Foundation will provide ownership continuity and authority over assets purchased with funds donated by private donors who are specifically interested in the use of the Waldorf Curriculum in publicly supported school programs. The Foundation's primary focus is to direct its resources for the exclusive benefit of the Sebastopol Independent Charter School. The Foundation is committed to providing facilities that will surround children with classrooms, gardens, wildlife trails, and other facilities that will inspire and uplift the human spirit.

The Foundation is funded primarily through pledges, contributions and rental income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Foundation reports information regarding its financial position and activities on an accrual basis according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

*Net assets without donor restriction* – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

*Net assets with donor restriction* – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of the Foundation to meet the stipulations or that become net assets without donor restriction at the date specified by the donor.

Net assets released from donor restriction – Net assets with donor restriction are “released” to net assets without donor restriction when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

Cash and Cash Equivalents – Cash equivalents consist primarily of money market accounts and other investments with an original maturity of 90 days or less.

CHARTER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Concentrations of Credit Risk – The Foundation maintains cash balances at local financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year, the Foundation held cash and cash equivalent balances in excess of federally insured limits. There is no amount in excess of the FDIC limit at June 30, 2019.

Accounts and contributions receivable – Accounts and contribution receivable consists of fees earned as well as contributions assured to the Foundation. Management has concluded that all accounts and contributions receivable are collectible. Accordingly, no allowance for doubtful receivables was recorded.

Property and equipment – The Foundation capitalizes all expenditures for property and equipment in excess of the capitalization limit. Property and equipment are stated at cost or, if donated, at fair value at date of donation. Additions, improvements and other capital outlay that significantly extend the useful life of an asset that is capitalized. Depreciation is computed using the straight-line method over the estimated useful life of the asset over 39 years.

Income Taxes – The Foundation is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701d. Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined the Foundation is not a “private Organization” within the meaning of Section 509(a) of the Internal Revenue Code.

Management of the Foundation considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the Organization’s status as a not-for-profit entity. Management believes the Foundation met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax; therefore, no provision for income taxes has been provided in these financial statements. The Foundation’s tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

CHARTER FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activity. Accordingly, certain costs have been allocated among the programs and supporting services.

Allocation Methodology – Costs that benefit more than one program are allocated on the basis of usage.

Donated Services and Items – Many volunteers have contributed hours during 2019 to the Organization's program services during the year; however, these donated services are not reflected in the financial statements since they do not require specialized services.

Reclassifications – Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Summarized Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

NOTE 3 LIQUIDITY

The following reflects the Foundation's financial assets as of June 30, 2019 that are available for operations. The Foundation's restrictions come from board restricted funds.

Financial assets at yearend	
Cash and cash equivalents	\$ 148,299
Accounts receivable	13,371
Less financial assets with board restrictions	<u>(302,000)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ (140,330)</u>

CHARTER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE 4      OPERATING LEASE - LESSOR

Commencing March 1, 2016, the Foundation entered into a lease for Suite 110 ending on July 26, 2018. Current monthly base rent is \$1,700 a month. The lessee is responsible for 9.23% of all common area operating expenses. A security deposit of \$3,400 has been paid as additional security in case of default.

On August 1, 2016, the Foundation entered into a lease for Suite 120. Monthly base rent was \$1,700 on a month to month basis. The lessee is responsible for a portion of all common area operating expenses. A security deposit of \$1,700 has been paid as additional security in case of default.

On December 1, 2015, the Foundation entered into a lease for Suite 130. Monthly base rent was \$1,795 ending on July 26, 2018. The lessee is responsible for 9.44% of all common area operating expenses. A security deposit of \$1,760 has been paid as additional security in case of default.

On September 1, 2018, the Foundation entered into a twenty-three-month lease agreement with Sebastopol Independent Charter School (SICS), with a monthly rent of \$11,500. A security deposit of \$8,500 has been paid as additional security in case of default. The lease was terminated one month after June 30, 2019 as the property was sold.

Total lease income for the year ended June 30, 2019 is \$223,196.

NOTE 5      NOTE PAYABLE

On September 30, 2013, the Foundation entered into an agreement to purchase all real property and all improvements thereon located at 1080-1088 Hurlbut Avenue, Sebastopol, CA. The Foundation obtained an acquisition and construction loan of \$3,800,000, which is secured by the property as collateral. On September 21, 2018, the Foundation was approved an additional \$400,000 under this note payable. The Foundation is required to make monthly payments of interest only of 5%. The note matures September 30, 2023.

On November 15, 2018, the Foundation obtained a promissory note of \$75,000. The Foundation is permitted to prepay in whole or part; however, quarterly interest payments are required. The interest rate is 5.25% per annum as of the effective date. The default interest rate is 10% per annum, but not greater than the maximum interest rate permitted by applicable law. The repayment of the loan in its entirety is due November 15, 2021.

CHARTER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE 6 CHANGE IN ACCOUNTING PRINCIPLE

The financial statements have been changed to adopt ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional which will impact the timing of revenue recognition. This change has been applied to both the current year and the prior year summarized information.

NOTE 7 SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 17, 2019, the date the financial statements were available to be issued and determined that there were no events occurring subsequent to June 30, 2019 that would have a material impact on the Foundation's results of operations or financial position.