

CHARTER SCHOOL OF MORGAN HILL
COUNTY OF SANTA CLARA
MORGAN HILL, CALIFORNIA

AUDIT REPORT

JUNE 30, 2002

CHARTER SCHOOL OF MORGAN HILL

JUNE 30, 2002

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FINANCIAL SECTION

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

RICHARD J. GOODELL, CPA
JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
PAUL D. FREDERICKS, CPA

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Directors
Charter School of Morgan Hill
Morgan Hill, California

We have audited the financial statements of Charter School of Morgan Hill as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Charter School of Morgan Hill at June 30, 2002, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2002 on our consideration of Charter School of Morgan Hill internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Richard J. GoodeLL, CPA & John L. GoodeLL, CPA

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 29, 2002

CHARTER SCHOOL OF MORGAN HILL
BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2002

	Governmental Fund Types	Account Groups		Totals (Memorandum Only)
	General	General Fixed Assets	General Long-Term Debt	June 30, 2002
<u>ASSETS</u>				
Revolving Cash Fund (Note 2)	\$ 25			\$ 25
Accounts Receivable (Note 3)				
Federal Government	625			625
State Government	35,344			35,344
Local Government	54,430			54,430
Prepaid Expenditures (Note 1G)	18,160			18,160
Leasehold Improvements (Note 4)		\$418,190		418,190
Furniture and Equipment (Note 4)		65,593		65,593
Amount to be provided for:593				
Retirement of General-Long Term Debt			<u>\$350,000</u>	<u>350,000</u>
Total Assets	<u>\$108,584</u>	<u>\$483,783</u>	<u>\$350,000</u>	<u>\$942,367</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Deficit Cash Balance (Note 2)	\$ 8,425			\$ 8,425
Accounts Payable	88,686			88,686
Loans Payable (Note 8)			<u>\$350,000</u>	<u>350,000</u>
Total Liabilities	<u>97,111</u>		<u>350,000</u>	<u>447,111</u>
Fund Equity:				
Investment in General Fixed Assets		\$483,783		483,783
Fund Balance (Note 1H):				
Legally Restricted	20,935			20,935
Reserved	18,185			18,185
Unreserved:				
Undesignated Fund Balance (Deficit)	<u>(27,647)</u>			<u>(27,647)</u>
Total Fund Equity	<u>11,473</u>	<u>483,783</u>	<u>0</u>	<u>495,256</u>
Total Liabilities and Fund Equity	<u>\$ 108,584</u>	<u>\$483,783</u>	<u>\$350,000</u>	<u>\$942,367</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

CHARTER SCHOOL OF MORGAN HILL
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

REVENUES

Revenue Limit Sources:	
State Apportionment	\$ 55,478
Local Sources in Lieu of Property Taxes	<u>731,371</u>
Total Revenue Limit	786,849
 Federal Revenue	 1,250
Other State Revenue	349,616
Other Local Revenue	138,876
Interest Income	<u>3,605</u>
 Total Revenues	 <u>1,280,196</u>

EXPENDITURES

Certificated Salaries	659,099
Classified Salaries	100,798
Employee Benefits	164,644
Books and Supplies	43,057
Services and Other Operating Expenditures	237,378
Capital Outlay	425,004
Debt Service -Interest	<u>1,370</u>
 Total Expenditures	 <u>1,631,350</u>
 Excess of Revenues Over (Under) Expenditures	 (351,154)
 Other Financing Sources:	
Other Sources	<u>350,000</u>
 Excess of Revenue and Other Financing Sources Over (Under) Expenditures	 (1,154)
 Fund Balance - July 1, 2001	 <u>12,627</u>
 Fund Balance - June 30, 2002	 <u>\$ 11,473</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

Charter School of Morgan Hill 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 receives certain public funding but is exempt from state laws governing Public Schools. The Charter School is governed by a Board with seven (7) Directors.

B. Accounting Policies

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 U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

C. Fund Accounting

The accounts of the Charter School are organized on the basis of funds or account group, each of which is considered to be a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Charter School resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Charter School's accounts are organized into two broad categories which in aggregate include one fund type and two account groups as follows:

GOVERNMENTAL FUND:

General Fund is the general operating fund of the Charter School. It is used to account for all financial resources.

ACCOUNT GROUPS:

The accounting and reporting treatment applied to the long-term liabilities and fixed assets associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources". Thus, the long-term liabilities and fixed assets associated with governmental funds are accounted for in the Account Groups of the District.

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Concluded)

General Long-Term Debt Account Group accounts for long-term liabilities expected to be financed from governmental funds.

General Fixed Asset Account Group accounts for fixed assets used in governmental fund type operations.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental Funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

E. Budgets and Budgetary Accounting

The Charter School's Board of Directors must adopt a final budget no later than July 1. The budgets are revised by the Charter School's Board of Directors during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year. The Charter School employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Compensated Absences

The Charter School policy is not to allow employees to carryover unused vacation to a subsequent fiscal year. Therefore, there is no accumulated unpaid vacation.

Accumulated employee sick leave benefits are not recognized as liabilities of the Charter School as the rights to these benefits do not vest with the employee. Therefore, sick leave benefits are recorded as expenditures in the period that sick leaves are taken. Unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

G. Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30.

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. General Fund Balance reservations at June 30, 2002 are as follows:

Revolving Cash	\$ 25
Prepaid Expenditures	<u>18,160</u>
Total	<u>\$ 18,185</u>

Reserved for Revolving Cash and prepaid expenditures represents the portion of the ending fund balance represented by the revolving fund cash and prepaid expenses, respectively. These amounts are not available for appropriation at the balance sheet date.

Legally Restricted Fund Balance reflects program revenues received and unspent at June 30, 2002, which are legally segregated for future use on the following programs:

Facade Improvement Grant	\$18,000
Charter School Implementation Grant	600
Abbott Labs Grant	29
Math Materials Donations	106
AMD Corporation Grant	1,000
Community Foundation Grant	
Silicon Valley	<u>1,200</u>
Total Legally Restricted	<u>\$20,935</u>

I. Fixed Assets

Fixed assets of the Charter School are recorded in the General Fund at cost. Donated fixed assets are recorded at their fair value at the date of donation.

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 2 - CASH AND INVESTMENTS

Cash at June 30, 2002 consisted of the following:

Deposits:

Deficit Cash on Hand in Bank	\$ (8,425)
Cash in Revolving Fund	25

Cash balances held in banks are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

NOTE 3 - RECEIVABLES

The Charter School's receivables at June 30, 2002 consisted of \$625 for Federal Class Size Reduction, \$23,900 and \$11,444 from the State Government for Lottery and Staff Development Buyback funding and \$54,430 from the Morgan Hill Unified School District in lieu of property tax revenue.

NOTE 4 - GENERAL FIXED ASSETS

The Charter School has maintained a complete list of fixed assets. The value of general fixed assets for the year ended June 30, 2002 is shown below:

Leasehold Improvements	\$418,190
Furniture and Equipment	<u>65,593</u>
Totals	<u>\$483,783</u>

NOTE 5 - 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 should generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 6 - EMPLOYEE RETIREMENT SYSTEMS

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).

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 6 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

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 8.0% 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 2001-2002 was 8.25% 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 year ending June 30, 2002 was \$53,208 and equals 100% of the required contributions for the year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligation to STRS at June 30, 2002 for early retirement incentives granted to terminated employees.

NOTE 7 - USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 8 – LOANS PAYABLE

Charter School Revolving Loan Fund

The Charter School obtained a revolving loan in the amount of \$250,000 from the State of California to help meet initial start-up and operating costs in fiscal year 2001-2002. The loan has no interest and the loan repayment will be deducted from the Charter School's annual state apportionment.

Future loan repayments are as follows:

<u>Year ending</u> <u>June 30</u>	<u>Loan Payment</u>
2003	\$ 76,997
2004	60,409
2005	57,724
2006	55,039
2007	<u>52,354</u>
Total	302,523
Less amounts representing interest	<u>(52,523)</u>
Present value of net minimum loan payments	<u>\$250,000</u>

South Valley National Bank Revolving Loan

The Charter School received a Line of Credit Loan from South Valley National Bank in the amount of \$200,000 on February 13, 2002, to assist with periodic working capital. The loan is unsecured and is personally guaranteed by two individuals. The loan is due in one payment of all outstanding principal plus all accrued unpaid interest on February 13, 2003. The common practice of the bank is to review the Line of Credit loan annually and then renew for an additional year unless there is a problem. In addition, regular monthly payments of all accrued unpaid interest due as of each payment date, beginning March 13, 2002.

CHARTER SCHOOL OF MORGAN HILL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

NOTE 8 - LOANS PAYABLE (CONCLUDED)

South Valley National Bank Revolving Loan (Concluded)

Future loan repayment is as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Loan Payment</u>
2003	\$103,500
Less amount representing interest	<u>(3,500)</u>
Present Value of Loan Payment	<u>\$100,000</u>

NOTE 9 - OPERATING LEASE

The Charter School leases facilities at 16975 Monterey Road under a sublease agreement that will expire May 30, 2004. Annual rental cost is \$108,960 and monthly payments are payable in advance. The Charter School has also paid a security deposit equivalent to one months' rent (\$9,080).

SUPPLEMENTARY INFORMATION SECTION

GOODELL,
PORTER &
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CERTIFIED
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RICHARD J. GOODELL, CPA
JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
PAUL D. FREDERICKS, CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Charter School of Morgan Hill
Morgan Hill, California

We have audited the financial statements of Charter School of Morgan Hill as of and for the fiscal year ended June 30, 2002 and have issued our report thereon dated October 29, 2002. These financial statements are the responsibility of the Charter School's management. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards for financial and compliance 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*, prescribed by the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary financial and statistical information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of Charter School of Morgan Hill. The accompanying schedule of expenditures of federal awards is presented for purposes of analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements of Charter School of Morgan Hill. Except as described in the preceding paragraph, such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

 
GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 29, 2002

CHARTER SCHOOL OF MORGAN HILL

MORGAN HILL, CALIFORNIA

JUNE 30, 2002

ORGANIZATION

Charter School of Morgan Hill was established in August, 2001, under an agreement with Morgan Hill Unified School District. The Charter School is located in Morgan Hill, California. The Charter School operated one school during 2001-2002 for grades kindergarten through six. There are seven members of the Governing Board.

GOVERNING BOARD

<u>Name</u>	<u>Title</u>
John Varela	President
Paige Ciewski	Director
Cinda Meister	Director
Lynn Mitoma	Director
Sharon Sousa	Director
Myles Taketa	Director
Marcy Tomsheck	Director

ADMINISTRATION

Mary Smathers
Director

Sharon Sousa
Principal

CHARTER SCHOOL OF MORGAN HILL
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	36	36
Grades 1 through 3	78	80
Grades 4 through 6	<u>63</u>	<u>64</u>
Total	<u>177</u>	<u>180</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

CHARTER SCHOOL OF MORGAN HILL
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

<u>Grade Level</u>	<u>1986-1987 Minutes Requirement</u>	<u>1982-1983 Actual Minutes</u>	<u>2001-2002 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	N/A	42,600	180	In compliance
Grades 1 and 2	50,400	N/A	57,975	180	In compliance
Grade 3	50,400	N/A	61,475	180	In compliance
Grades 4 through 6	54,000	N/A	61,475	180	In compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

CHARTER SCHOOL OF MORGAN HILL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

<u>Program Name:</u>	<u>Federal Catalog Number</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Program Expenditures</u>
US Department of Education: IASA: Title VI - Class Size Reduction	84.340	13073	\$ <u>1,250</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

CHARTER SCHOOL OF MORGAN HILL
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

This schedule presents information on the amount of instructional time and number of days offered by the Charter School and whether the Charter School complied with the provisions of Education Code Section 47612.5.

C. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133 and state requirements, this schedule was prepared for the Charter School.

GOODELL,
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RICHARD J. GOODELL, CPA
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PAUL D. FREDERICKS, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Charter School of Morgan Hill
Morgan Hill, California

We have audited the general purpose financial statements of Charter School of Morgan Hill, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 29, 2002. Our audit was made in accordance with U.S. generally accepted auditing standards, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Charter School's management is responsible for the Charter School's compliance with laws and regulations. In connection with the 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 in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	4	Yes
Kindergarten continuation	3	Not Applicable
Independent study	13	Not Applicable
Continuation education	11	Not Applicable
Adult education	8	Not Applicable
Regional Occupational Center/Programs	4	Not Applicable
Staff development days	3	Yes

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentives for longer instructional day:		
School Districts	3	Yes
County Offices of Education	3	Not Applicable
GANN limit calculation	2	Not Applicable
Early retirement incentive program	5	Not Applicable
Community Day Schools	8	Not Applicable
Class Size Reduction:		
Option One classes	11	Yes
Option Two classes	10	Not Applicable
Option One and Two classes	16	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Not Applicable
Instructional Materials Fund		
State Instructional Materials		
K-8	10	Not Applicable
9-12	7	Not Applicable
Schiff-Bustamante Standards-Based Instructional Materials	9	Not Applicable
Digital High School Education Technology Grant Program	5	Not Applicable
California Public School Library Act of 1998	4	Not Applicable

Based on our audit, we found that, for the items tested, Charter School of Morgan Hill complied with the state laws and regulations of the state programs referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Charter School of Morgan Hill had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Governing Board, management, State Controller's Office, Department of Finance, Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.


GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 29, 2002

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Charter School of Morgan Hill
Morgan Hill, California

We have audited the combined and combining financial statements of Charter School of Morgan Hill as of and for the year ended June 30, 2002, and have issued our report thereon dated October 29, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Charter School of Morgan Hill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Charter School of Morgan Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Charter School of Morgan Hill's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are included in the Findings and Recommendations Section of the report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are a material weakness.

This report is intended solely for the information Governing Board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.


GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 29, 2002

FINDINGS AND RECOMMENDATIONS SECTION

CHARTER SCHOOL OF MORGAN HILL
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Reporting condition(s) identified

not considered to be material weaknesses?

☒ Yes ☐ None reported

Noncompliance material to financial
statements noted?

☐ Yes ☒ No

State Awards

Internal control over state programs:

Material weakness(es) identified?

☐ Yes ☒ No

Reporting conditions(s) identified not
considered to be material weaknesses?

☐ Yes ☒ None reported

Type of auditor's report issued on compliance
for state programs:

Unqualified

CHARTER SCHOOL OF MORGAN HILL
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

2002 - 1 - PURCHASES AND CASH DISBURSEMENTS - 30000

Specific Requirement That Was Not Complied With: Charter policy and sound accounting practices require supporting documentation for cash disbursements including proper authorization for expenditures.

Finding: During testing of internal controls over cash disbursements we noted that three of ten checks selected for testing were not approved by the Director. All payments tested appeared to be appropriate and reasonable.

Amount of Questioned Costs and How Computed: The condition referred to above was the result of our test of an attribute of the control system. We considered defining the dollar amount by extending the error rate to the total population, but determined this type of analysis would likely result in incorrect conclusion.

Effect: Without prior approval by an authorized person, unauthorized disbursements may be made and not be detected. Lack of adherence to sound accounting practices requiring proper authorization for expenditures limits management's control over cash disbursement.

Recommendation: We recommend that the Charter School observe the policy that each invoice/request for payment be approved by the Director prior to processing the check.

Charter School Response: It has always been the intent of all CSMH financial staff to have every invoice approved before payment and it is built into our current system. We will be ever more diligent to ensure that every invoice is approved by the director before payment is made.

2002 - 2 - BOARD MINUTES - 30000

Finding: Board minutes are not approved at subsequent meetings. All minutes are not being signed and maintained in a central book. Complete documentation of actions taken including record of motions and seconds on votes are inconsistent.

Recommendation: We recommend the Governing Board adopt a format for the official minutes that suits the Charter School's needs while also providing a clear and complete record of the Board's activity. Additionally, the Board should consider having legal council review the structure of the minutes for completeness and adherence to State law.

Charter School Response: We have already changed our agenda and board process to approve minutes of previous board meetings. We will ensure a signed copy of each set of minutes is in our central Board Minutes book. Also, we will be sure that our minute taker is recording all votes, board actions and who moves and seconds each item before a vote thoroughly and accurately. We have already taken steps to improve this system.

CHARTER SCHOOL OF MORGAN HILL
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FOR THE YEAR ENDED JUNE 30, 2002

Section III - Federal Award Findings and Questioned Costs

No matters are reported

Section IV - State Award Findings and Questioned Costs

No matters are reported

