

CHARTER FOUNDATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2017

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
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, 2017, and the related statements of activities 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 I am (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, 2016 reviewed by another independent accountant as seen in the report dated September 28, 2016, the accountant 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, 2016, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

Goranson and Associates, Inc.

October 31, 2017

Santa Rosa, California

CHARTER FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

(With summarized comparative totals for June 30, 2016)
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

| | 2017 | 2016 |
|-------------------------------------|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 624,626 | \$ 660,702 |
| Short term investments | 207,424 | 206,235 |
| Accounts receivable | 12,808 | - |
| Prepaid expenses | 6,062 | 3,062 |
| Total current assets | 850,920 | 869,999 |
| Fixed assets: | | |
| Building, land and improvements | 5,404,215 | 5,404,215 |
| Equipment | 2,348 | 2,348 |
| Furniture and equipment | 1,158,285 | 837,894 |
| Subtotal | 6,564,848 | 6,244,457 |
| Less accumulated depreciation | (824,822) | (765,055) |
| Net fixed assets | 5,740,026 | 5,479,402 |
| Non-current assets | | |
| Other assets | 53,252 | - |
| Investments | 251,050 | 248,393 |
| Total other assets | 304,302 | 248,393 |
| Total assets | \$ 6,895,248 | \$ 6,597,794 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 10,454 | \$ 870 |
| Security deposits | 16,160 | 17,860 |
| Class funds | 12,500 | 13,500 |
| Current portion of long-term debt | 2,525,000 | 2,525,000 |
| Total current liabilities | 2,564,114 | 2,557,230 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 4,229,134 | 3,938,564 |
| Designated for Building Maintenance | 102,000 | 102,000 |
| Total net assets | 4,331,134 | 4,040,564 |
| Total liabilities and net assets | \$ 6,895,248 | \$ 6,597,794 |

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(with summarized comparative totals for the year ended June 30, 2016)
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

| | 2017 <u>Total</u> | 2016 <u>Total</u> |
|--|----------------------------|----------------------------|
| SUPPORT AND REVENUE: | | |
| Pledges | \$ 273,123 | \$ 286,855 |
| Lease Income | 236,512 | 253,683 |
| Special events (net \$10,736 expenses) | 48,048 | 42,990 |
| Capital campaign | 79,046 | 57,857 |
| Interest Income | 1,111 | 1,277 |
| Investment income (loss) | 6,399 | 8,044 |
| Grants | 14,360 | 1,108 |
| Fundraising | 2,476 | - |
| Total support and revenue | <u>661,075</u> | <u>651,814</u> |
| EXPENSES: | | |
| Program | 314,598 | 428,023 |
| Management and general | 53,774 | 51,899 |
| Fundraising | 2,133 | 3,290 |
| Total expenses | <u>370,505</u> | <u>483,212</u> |
| CHANGE IN NET ASSETS | 290,570 | 146,094 |
| NET ASSETS, beginning | <u>4,040,564</u> | <u>3,894,470</u> |
| NET ASSETS, ending | <u><u>\$ 4,331,134</u></u> | <u><u>\$ 4,040,564</u></u> |

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(with summarized comparative totals for the year ended June 30, 2016)
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>2017 Total</u> | <u>2016 Total</u> |
|----------------------|-------------------|-----------------------------------|--------------------|-----------------------|-----------------------|
| Wages | | \$ 39,443 | | \$ 39,443 | 39,617 |
| Payroll taxes | | 3,465 | | 3,465 | 3,568 |
| Workers compensation | | 149 | | 149 | 426 |
| Charter school grant | \$ 43,460 | | | 43,460 | 106,373 |
| Bank charge | - | 1,877 | | 1,877 | 3,856 |
| Campus overhead | 1,500 | - | | 1,500 | 2,866 |
| Depreciation | 59,767 | - | | 59,767 | 118,966 |
| Fundraising | - | - | \$ 2,133 | 2,133 | 3,290 |
| Liability insurance | - | 1,344 | - | 1,344 | 1,344 |
| Licences & permits | - | 20 | - | 20 | 80 |
| Maintenance | 2,855 | - | - | 2,855 | 6,522 |
| Miscellaneous | - | 3,137 | - | 3,137 | 845 |
| Office supplies | - | 3,048 | - | 3,048 | 2,557 |
| Postage and delivery | - | 1,291 | - | 1,291 | 576 |
| Professional fees | 6,200 | - | - | 6,200 | 5,654 |
| Property insurance | 9,495 | - | - | 9,495 | 13,200 |
| Property taxes | 37,847 | - | - | 37,847 | 36,636 |
| Mortgage interest | 126,251 | - | - | 126,251 | 118,184 |
| Utilities | 27,223 | - | - | 27,223 | 18,632 |
| Total expenses | <u>\$ 314,598</u> | <u>\$ 53,774</u> | <u>\$ 2,133</u> | <u>\$ 370,505</u> | <u>\$ 483,212</u> |

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(with summarized comparative totals for the year ended June 30, 2016)
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 290,570 | \$ 146,094 |
| Adjustments to reconcile change in net assets to cash from operations | | |
| Depreciation and amortization | 59,767 | 118,966 |
| Investment income | 454 | (771) |
| (Increase) decrease in: | | |
| Accounts and grants receivable | (12,808) | - |
| Prepaid retainers | (3,000) | 252 |
| Undeposited funds | - | 226 |
| Other grant | (53,252) | - |
| Increase (decrease) in: | | |
| Accounts payable | 9,584 | 87 |
| Security deposits | (1,700) | (3,628) |
| Total cash provided by operations | <u>289,615</u> | <u>261,226</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (320,391) | (494,829) |
| Purchase of investments | (4,300) | - |
| Total cash used by investing activities | <u>(324,691)</u> | <u>(494,829)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase in class funds | <u>(1,000)</u> | <u>3,000</u> |
| NET CHANGE IN CASH | (36,076) | (230,603) |
| CASH, beginning of year | <u>660,702</u> | <u>891,305</u> |
| CASH, end of year | <u>\$ 624,626</u> | <u>\$ 660,702</u> |
| Supplemental information: | | |
| Cash paid for interest | <u>\$ 126,251</u> | <u>\$ 118,184</u> |

The accompanying notes are an integral part of these financial statements

CHARTER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 of one or more of the sites and the construction of school facilities for charter school programs.

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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – 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.

Temporarily Restricted Net Assets – 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 unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be retained and invested permanently by the Foundation to use all or part of the investment return on these net assets for specified or unspecified purposes.

Net assets released from restriction – Temporarily restricted net assets are “released” to unrestricted net assets when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

CHARTER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Other Basis of Presentation Policies – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions as fulfilled in the same time period the revenue or support is received, the Foundation reports the revenue or support as unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets of liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

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

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, 2017.

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.

Investments – Investments are made up of investment funds and certificates of deposits and are reported at their fair values in the statement of financial position. The fair value of the equities securities are based upon quoted prices in active markets (Level 1 and 3 measurements). Realized and unrealized gains and losses are included in the change in net assets and are included in the statement of activities as net realized and unrealized gains on investments.

Fair Value Measures – The Foundation reports its fair value measures by using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

CHARTER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The three level of the fair value hierarchy under GAAP are:

Level 1 – Unadjusted quoted prices in active markets accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices for valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (inputs are supported by little or no market activity).

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 Organization'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, 2017

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.

Donated Services and Items – Many volunteers have contributed hours during 2017 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, 2016, from which the summarized information was derived.

NOTE 3 FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Foundation has invested in the RSF Social Investment Fund since 2006. The investment is a pooled debt security investment that is not publicly marketable. The investment is presented at carrying cost and has no readily determinable fair market value. Investments are subject to ninety day reinvestment periods and are automatically renewed. Interest earnings are automatically reinvested.

CHARTER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 FAIR VALUE MEASUREMENTS AND INVESTMENTS, continued

The following table presents the assets and liabilities recognized in the accompanying statements of financial position that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which those fair value measurements fall at June 30, 2017:

| | <u>Level 1</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------|-------------------|-------------------|-------------------|
| Certificates of deposit | \$ 251,050 | | \$ 251,050 |
| Pooled investment | - | \$ 207,424 | 207,424 |
| Total | <u>\$ 251,050</u> | <u>\$ 207,424</u> | <u>\$ 458,474</u> |

Investment earnings are as follows for the year ended June 30, 2017:

| | |
|-------------------|-----------------|
| Investment income | \$ 5,945 |
| Realized gain | <u>454</u> |
| Total | <u>\$ 6,399</u> |

NOTE 4 OPERATING LEASE - LESSOR

Commencing March 1, 2016, the Foundation entered into a lease for Suite 110 ending on February 28, 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. Tenant has option to renew for an additional 2-year term at the base rent of \$1,751.

On February 28, 2013, the Foundation entered into a lease for Suite 120. Monthly base rent was \$1,386. The lessee is responsible for 9.44% of all common area operating expenses. A security deposit of \$2,640 has been paid as additional security in case of default. Base rent increases based on step increases. The lease terminated on March 31, 2016. The lease renewed August 31, 2016.

On December 1, 2015, the Foundation entered into a lease for Suite 130. Monthly base rent was \$1,760 ending on November 30, 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. The base rent for the third year of the lease, commencing December 1, 2017, is subject to a cost of living increase based on the consumer price index.

CHARTER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 OPERATING LEASE – LESSOR, continued

On June 1, 2012, the Foundation entered into a two year lease agreement with Sebastopol Independent Charter School (SICS). Subsequently, the Foundation and SICS executed addenda extending the lease to June 30, 2016 with a most recent monthly rent of \$11,500. After June 30, 2016, the lease becomes a month-to-month lease. A security deposit of \$8,500 has been paid as additional security in case of default.

Total lease income for the year ended June 30, 2017 is \$236,512.

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 \$3,600,000, of which \$2,525,000 has been drawn, which is secured by the property as collateral. The Foundation is required to make monthly payments of interest only of 4.5%. The note matures December 31, 2023.

NOTE 6 SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through October 31, 2017, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to June 30, 2017 that would have a material impact on the Foundation's results of operations or financial position.