

SANTIAGO MIDDLE SCHOOL

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2020**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA CHARTER SCHOOL**

Santiago Middle (Charter No. 0066)



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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Santiago Middle School
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of Santiago Middle School (the "Charter") which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses 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 Santiago Middle School as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Santiago Middle School taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2021, on our consideration of the Charter'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 solely 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 the effectiveness of the Charter's 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's internal control over financial reporting and compliance.



San Diego, California
March 3, 2021

**SANTIAGO MIDDLE SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020**

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,656,878
Accounts receivable	1,680,864
Prepaid expenses	<u>7,425</u>
Total current assets	<u>3,345,167</u>
 Noncurrent assets	
Deposits	450,000
Capital assets, net	<u>44,704</u>
Total noncurrent assets	<u>494,704</u>
Total Assets	<u>\$ 3,839,871</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 951,398
Supplemental retirement plan	<u>229,524</u>
Total liabilities	<u>1,180,922</u>
 Net assets	
Without donor restrictions	2,583,702
With donor restrictions	<u>75,247</u>
Total net assets	<u>2,658,949</u>
Total Liabilities and Net Assets	<u>\$ 3,839,871</u>

The notes to the financial statements are an integral part of this statement.

**SANTIAGO MIDDLE SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 3,007,011	\$ -	\$ 3,007,011
Federal revenues	418,417	-	418,417
Other state revenues	1,318,037	72,752	1,390,789
Total federal and state support and revenues	<u>4,743,465</u>	<u>72,752</u>	<u>4,816,217</u>
Local support and revenues			
Payments in lieu of property taxes	5,890,900	-	5,890,900
Student fundraising activities	112,536	-	112,536
Grants and donations	26,387	-	26,387
Investment income, net	14,395	-	14,395
Other local revenues	30,718	-	30,718
Total local support and revenues	<u>6,074,936</u>	<u>-</u>	<u>6,074,936</u>
Donor restrictions satisfied	79,479	(79,479)	-
Total Support and Revenues	<u>10,897,880</u>	<u>(6,727)</u>	<u>10,891,153</u>
EXPENSES			
Program services	9,879,484	-	9,879,484
Supporting services			
Management and general	624,555	-	624,555
Fundraising	19,764	-	19,764
Total Expenses	<u>10,523,803</u>	<u>-</u>	<u>10,523,803</u>
CHANGE IN NET ASSETS	374,077	(6,727)	367,350
Net Assets - Beginning	<u>2,209,625</u>	<u>81,974</u>	<u>2,291,599</u>
Net Assets - Ending	<u>\$ 2,583,702</u>	<u>\$ 75,247</u>	<u>\$ 2,658,949</u>

The notes to the financial statements are an integral part of this statement.

**SANTIAGO MIDDLE SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

EXPENSES	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Personnel expenses				
Certificated salaries	\$ 4,527,907	\$ -	\$ -	\$ 4,527,907
Non-certificated salaries	709,875	485,298	-	1,195,173
Deferred compensation	1,487,951	14,326	-	1,502,277
Payroll taxes	221,085	15,284	-	236,369
Health and welfare benefits	797,063	56,901	-	853,964
Total personnel expenses	7,743,881	571,809	-	8,315,690
Non-personnel expenses				
Books and supplies	484,072	7,182	-	491,254
Insurance	51,634	-	-	51,634
Occupancy	284,919	19,858	-	304,777
Professional services	579,189	22,021	19,764	620,974
Depreciation	5,759	534	-	6,293
Travel and conference	43,982	1,427	-	45,409
Payments to authorizing agency	656,575	-	-	656,575
Other operating expenses	29,473	1,724	-	31,197
Total non-personnel expenses	2,135,603	52,746	19,764	2,208,113
Total Expenses	\$ 9,879,484	\$ 624,555	\$ 19,764	\$ 10,523,803

The notes to the financial statements are an integral part of this statement.

**SANTIAGO MIDDLE SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 367,350
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	6,293
(Increase) decrease in operating assets	
Accounts receivable	28,806
Prepaid expenses	8,146
Increase (decrease) in operating liabilities	
Accounts payable	(258,476)
Supplemental retirement plan	(114,762)
Net cash provided by (used in) operating activities	<u>37,357</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 37,357

Cash and cash equivalents - Beginning 1,619,521

Cash and cash equivalents - Ending \$ 1,656,878

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u>\$ 459</u>
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The notes to the financial statements are an integral part of this statement.

**SANTIAGO MIDDLE SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Santiago Middle School (the “Charter”) was formed as a nonprofit public benefit corporation June 1, 2005 for the purpose of operating as a California public school located in Orange County. The Charter was numbered by the State Board of Education July 1994 as California Charter No. 0066. Santiago Middle School’s mission is to assist its students to attain an educational advantage by delivering a quality and disciplined public school education of unmatched value. During the year ended June 30, 2020, Santiago Middle School served grades 7 and 8.

Santiago Middle School is authorized to operate as a charter school through the Orange Unified School District (the “authorizing agency” or the “District”). On June 4, 2015, the Board of Directors of Orange Unified School District approved a charter renewal for the Charter for a 5 year term beginning July 1, 2015 and expiring on June 30, 2020. On February 13, 2020, the Board of Directors of Orange Unified School District approved a charter renewal for an additional 5 year term beginning July 1, 2020 and expiring June 30, 2025. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

B. Basis of Accounting

The Charter’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018.

Under the Guide, Santiago Middle School is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

As a public charter school, Santiago Middle School also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is not used in the Charter’s financial statement presentation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management's estimates.

F. Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

G. In Lieu of Property Taxes Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the authorizing agency. In lieu of distributing funds out of property tax proceeds, the authorizing agency makes monthly payments to Santiago Middle School. Revenues are recognized by the Charter when earned.

H. Cash and Cash Equivalents

Santiago Middle School considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

I. Investments

The Charter's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities. Investment return is presented net of any investment fees.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Charter establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2020, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. Capital Assets

Santiago Middle School has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

L. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

M. Income Taxes

Santiago Middle School is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Charter is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, the Charter is not required to register with the California Attorney General as a charity.

The Charter's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Charter's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

O. New Accounting Pronouncements

Revenue Recognition

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in FASB ASU No. 2014-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The effective dates for the new guidance are staggered. Public entities have already implemented the new guidance, and nonprofit entities were required to implement the new guidance for fiscal years beginning after December 15, 2018. In April 2020, FASB voted to delay implementation by one year as a result of COVID-19. The Charter will determine the impact on the financial statements once implemented.

Leases

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and was originally effective for public business entities for fiscal years beginning after December 15, 2018. In October 2019, FASB approved to delay effective dates for all public business entities, except for SEC filers, to fiscal years beginning after December 15, 2019. In April 2020, FASB voted to delay implementation by one year as a result of COVID-19. The Charter will determine the impact on the financial statements once implemented.

SANTIAGO MIDDLE SCHOOL
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2020, consist of the following:

Cash in banks, non-interest bearing	\$ 1,456,623
Cash in banks, interest bearing	200,255
Total Cash and Cash Equivalents	<u>\$ 1,656,878</u>

Cash in Banks - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization’s deposits may not be returned to it. Santiago Middle School does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2020, \$1,726,285 of the Santiago Middle School’s bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held at Farmers & Merchants Bank.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2020, consists of the following:

Local control funding sources, state aid	\$ 1,107,500
Federal sources	148,461
Other state sources	192,170
In-lieu property taxes	218,362
Other local sources	14,371
Total Accounts Receivable	<u>\$ 1,680,864</u>

NOTE 4 – DEPOSITS

In accordance with the Charter’s Memorandum of Understanding with its authorizing agency, \$450,000 is held by the authorizing agency as a reserve. The funds are invested in a County Treasury account which is mainly utilized for payroll processing.

NOTE 5 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2020 consists of the following:

	Balance				Balance
	July 1, 2019	Additions	Disposals		June 30, 2020
Property and equipment					
Buildings improvements	\$ 74,837	\$ -	\$ -	\$ -	\$ 74,837
Furniture, fixtures and equipment	9,600	-	-	-	9,600
Computer equipment	86,368	-	-	-	86,368
Total property and equipment	<u>170,805</u>	-	-	-	<u>170,805</u>
Less accumulated depreciation	(119,808)	(6,293)	-	-	(126,101)
Capital Assets, net	<u>\$ 50,997</u>	<u>\$ (6,293)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,704</u>

SANTIAGO MIDDLE SCHOOL
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2020, consists of the following:

Due to authorizing agency*	\$ 705,312
Compensated absences	202,623
Vendor payables	43,279
Overpayment of revenues	184
Total Accounts Payable	<u>\$ 951,398</u>

*Refer to Note 13 for related party transactions

NOTE 7 – SUPPLEMENTARY RETIREMENT PLAN

In April 2017, the Board of Directors of the Charter adopted a PARS supplementary retirement plan as a strategy to decrease expenses. The plan was to be implemented contingent on the required number of employees participating to make it cost effective. Based on the enrollment, the PARS plan meets the fiscal and operational objectives of the Charter with a total of nine (9) participants. The Charter’s obligation under the plan was \$573,811 payable in five (5) annual installments of \$114,762 with the first payment due on July 10, 2017. The outstanding balance attributed to this plan as of June 30, 2020 is \$229,524. Future payment obligations are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>
2021	\$ 114,762
2022	114,762
Total	<u>\$ 229,524</u>

NOTE 8 – NET ASSETS

Net Assets with Donor Restrictions

As of June 30, 2020, the Charter’s net assets with donor restrictions consist of the following:

Low performing student block grant	\$ 63,644
Multi-tiered system of support (MTSS)	3,397
SB 117 COVID-19 LEA response funds	8,206
Total Net Assets with Donor Restrictions	<u>\$ 75,247</u>

Net Assets without Donor Restrictions

Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Charter. At June 30, 2020, the Charter’s net assets without donor restrictions consist of the following:

Net investment in capital assets	\$ 44,704
Board designations	
Reserve for prepaid expenses	7,425
5% reserve and security deposit	450,000
Student body funds	47,334
Total board designations	<u>504,759</u>
Undesignated	<u>2,034,239</u>
Total Net Assets without Donor Restrictions	<u>\$ 2,583,702</u>

**SANTIAGO MIDDLE SCHOOL
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020**

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Charter’s financial assets as of June 30, 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

Financial assets		
Cash and cash equivalents	\$	1,656,878
Accounts receivable, current portion		1,680,864
Prepaid expenses		7,425
Total Financial Assets, excluding noncurrent	\$	<u>3,345,167</u>
Contractual or donor-imposed restrictions		
Cash restricted by others for specific uses		(75,247)
Board designations		
Reserve for economic uncertainty		(7,425)
5% reserve and security deposit		(450,000)
Student body funds		<u>(47,334)</u>
Financial Assets available to meet cash needs for expenditures within one year	\$	<u>2,765,161</u>

NOTE 10 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers’ Retirement System (CalSTRS), and non-certificated employees are members of the California Public Employees’ Retirement System (CalPERS).

California State Teachers’ Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 10.25% or 10.205% of their 2019-20 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2019-20 was 17.10% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter’s contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2019-20	\$ 723,321	100%
2018-19	\$ 664,594	100%
2017-18	\$ 571,583	100%

**SANTIAGO MIDDLE SCHOOL
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2020**

NOTE 10 – EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for Santiago Middle School is estimated at \$522,004. The on-behalf payment amount is computed as the proportionate share of total 2018-19 State on-behalf contributions.

California Public Employees’ Retirement System (CalPERS)

Plan Description

Santiago Middle School contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

Funding Policy

Active plan members, who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 7.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

Santiago Middle School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2019-20 was 19.721%. The contribution requirements of the plan members are established by state statute. The Charter’s contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2019-20	\$ 206,039	100%
2018-19	\$ 172,891	100%
2017-18	\$ 144,198	100%

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Governmental Funds

Santiago Middle 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 would not be material.

SANTIAGO MIDDLE SCHOOL
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Multi-employer Defined Benefit Plan Participation

Under current law on multi-employer defined benefit plans, the Charter’s voluntary withdrawal from any underfunded multi-employer defined benefit plan would require the Charter to make payments to the plan, which would approximate the Charter’s proportionate share of the multi-employer plan’s unfunded vested liabilities. CalSTRS and CalPERS have not estimated the Charter’s share of withdrawal liability as it has been included within Orange Unified School District’s proportionate share. As mentioned in Note 13, the District processes payroll of the Charter as reportable compensation of its own. As such, the Charter may be liable for a portion of the unfunded liability if the District were to allocate any portion of the liability to the Charter. As of June 30, 2020, the District has not elected to do so; therefore, a liability has not been recorded within the Charter’s financials.

Custodial Assets

The Charter holds funds for the Associated Student Body (ASB) as a trustee. The ASB exists at the explicit approval, subject to the revocation, of the Charter’s Board of Directors. The Charter includes the financial position and activity of the ASB in its financial statements. A summary of the ASB’s financial position as of June 30, 2020 and activity for the year then ended is as follows:

	<u>Student Body Funds</u>
Assets	\$ 47,334
Net assets	<u>\$ 47,334</u>
Revenues	\$ 81,325
Expenses	<u>(85,054)</u>
Change in net assets	(3,729)
Beginning net assets	<u>51,063</u>
Ending net assets	<u>\$ 47,334</u>

Energy Conservation Contract

On September 28, 2007, the Charter entered into a Memorandum of Understanding with Orange Unified School District to compensate the District for energy conservation measures and modernization projects planned at the Charter’s site. The term of the agreement is a period of twenty years. As of June 30, 2020, the future minimum annual payments under the terms of this agreement are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Payment</u>
2021	\$ 53,967
2022	53,967
2023	53,967
2024	53,967
2025	53,967
Thereafter	161,901
Total Future Lease Payments	<u>\$ 431,736</u>

SANTIAGO MIDDLE SCHOOL
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2020

NOTE 12 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Santiago Middle School in an effort to advance the Charter’s programs and objectives. These services have not been recorded in the Charter’s financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 13 – RELATED PARTY TRANSACTIONS

Authorizing Agency

The Charter makes payments to the authorizing agency, Orange Unified School District, to provide required services for special education and other purchased services in addition to fees for oversight. Fees associated with oversight consisted of 2% of revenue from local control funding formula sources. During the fiscal year ended June 30, 2020, fees paid to the authorizing agency consisted of the following:

Oversight and facility usage fees	\$	177,958
Administrative services		377,223
Special education encroachment		47,427
Energy conservation payment (see Note 11)		53,967
Total Payments to Authorizing Agency	\$	656,575

In addition to the services mentioned above, the Charter utilized the authorizing agency for payroll processing. All personnel expenses as presented on the Statement of Functional Expenses are passed-through the District and are in addition to the "payments to authorizing agency" included in non-payroll expenses and presented above. All employee compensation is paid for by the Orange Unified School District with the Charter’s funds held by the authorizing agency in a County Treasury account (see Note 4). Though all individuals employed by Santiago Middle School have reportable compensation issued under the authorizing agency’s employer identification number and not that of the Charter; the individuals fully provide their compensated services to the Charter, except with respect to substitute teachers, which are shared employees between the Charter and the authorizing agency. As of June 30, 2020, \$705,312 was payable to the District.

Interested Parties

The Charter’s Board of Directors is designed to include representatives from all affected groups (e.g.; parents, teachers, and administrators); consequently, certain members of the Board of Directors are classified as interested parties because they are also employed by the Charter.

NOTE 14 – SUBSEQUENT EVENTS

Santiago Middle School has evaluated subsequent events for the period from June 30, 2020 through March 3, 2021, the date the financial statements were available to be issued. As a result of the coronavirus (COVID-19) outbreak, economic uncertainties have arisen which have modified and delayed governmental funding as well as impacted how the Charter operates its programs and activities for the future reporting periods.

At this time, management cannot predict the overall impact of the COVID-19 pandemic, but management continues to monitor the situation, to assess further possible implications to operations, and to take actions in an effort to mitigate adverse consequences. Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

**SANTIAGO MIDDLE SCHOOL
 CHARTER ORGANIZATIONAL STRUCTURE
 JUNE 30, 2020**

Santiago Middle School (the “Charter”) is a charter school located in Orange, California which provides seventh and eighth grade education to approximately 1,017 students. The Charter opened as the first charter school in Orange County in September 1995 and the sixty-sixth charter school in the state of California (Charter No. 0066). In 2005, Santiago Middle School transitioned from a dependent to an independent charter. The Charter received approval to operate as a charter school through Orange Unified School District, the authorizing agency.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
John Besta	Chairperson	August 2021
Dave Simpson	Vice Chairperson	August 2021
Ashley Pedroza	Secretary	August 2021
Kelli Colbert	Member	August 2020
Andrew Edlund	Member	August 2020
Heather Irwin	Member	August 2021
Jourden Ammann	Teacher Representative	August 2021
Steve Arnett	Teacher Representative	August 2021
Kareem Khaled	Teacher Representative	August 2020
Kristi Peckham	Teacher Representative	August 2021
Cynthia Robles	Teacher Representative	August 2020

ADMINISTRATION

Jim D'Agostino
Principal & Chief Executive Officer

Nanette Proctor
Business Services Coordinator/Chief Financial Officer

See accompanying notes to supplementary information.

**SANTIAGO MIDDLE SCHOOL
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2020**

	Second Period Report	Annual Report
<i>Certificate No.</i>	<u>17CBBB96</u>	<u>29FEB9E6</u>
	<u>Classroom-Based</u>	
Grade Span		
Regular		
Seventh through eighth	978.36	978.36
Special Education		
Seventh through eighth	2.02	2.02
Total Average Daily Attendance - Classroom-Based	<u>980.38</u>	<u>980.38</u>
	<u>Nonclassroom-Based</u>	
Grade Span		
Regular		
Seventh through eighth	0.39	0.39
Special Education		
Seventh through eighth	1.03	1.03
Total Average Daily Attendance - Nonclassroom-Based	<u>1.42</u>	<u>1.42</u>

See accompanying notes to supplementary information.

**SANTIAGO MIDDLE SCHOOL
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2020**

Grade Span	Minutes Requirement	2019-20 Actual Instructional Minutes*	2019-20 Planned Number of Days	2019-20 Actual Number of Days	Number of Days Certified Closed Due to COVID-19	Status
Grades 7 and 8	54,000	63,244	180	122	58	Complied

**The planned minutes covered by the COVID-19 School Closure Certification were included in the actual minutes column but were not actually offered due to the COVID-19 school closure. On June 25, 2020, the Charter certified that the school closed from March 16, 2020 to June 11, 2020 for a total of 58 instructional days closed due to COVID-19.*

**SANTIAGO MIDDLE SCHOOL
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2020**

There were no adjustments to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets per the audited financial statements for the year end ended June 30, 2020.

**SANTIAGO MIDDLE SCHOOL
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

NOTE 1 – PURPOSE OF SCHEDULES

A. Charter Organizational Structure

This schedule provides information about the Charter’s authorizing agency, grades served, members of the governing body, and members of the administration.

B. Schedule of Average Daily Attendance

Average daily attendance (ADA) 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.

C. Schedule of Instructional Time

Santiago Middle School receives, as part of their local control funding formula sources, incentive funding for maintaining instructional time. This schedule presents information on the amount of instructional time offered by the Santiago Middle School and whether the Charter complied with the provisions of *Education Code Section 46200* through *46208*.

D. Reconciliation of Financial Report – Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile net position reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets on the audited financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

**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**Independent Auditors' Report

To the Board of Directors of
Santiago Middle School
Orange, 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 Santiago Middle School (the "Charter") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated March 3, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter's internal control over financial reporting ("internal control") as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter'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 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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Charter'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 Charter's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Christy White, Inc". The signature is written in a cursive, flowing style.

San Diego, California
March 3, 2021

REPORT ON STATE COMPLIANCEIndependent Auditors' Report

To the Board of Directors of
Santiago Middle School
Orange, California

Report on State Compliance

We have audited Santiago Middle School's compliance with the types of compliance requirements described in the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Santiago Middle School's state programs for the fiscal year ended June 30, 2020, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santiago Middle School's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about Santiago Middle School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Santiago Middle School's compliance with those requirements.

Opinion on State Compliance

In our opinion, Santiago Middle School complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the following table for the year ended June 30, 2020.

Procedures Performed

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

Description	Procedures Performed
School Districts, County Offices of Education and Charter Schools	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	Not applicable
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not applicable

We did not perform testing of Nonclassroom-Based Instruction/Independent Study because reported average daily attendance (ADA) was not material during the fiscal year ended June 30, 2020.



San Diego, California
March 3, 2021

FINDINGS AND QUESTIONED COSTS

**SANTIAGO MIDDLE SCHOOL
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>None</u>

Federal Awards

*The Charter did not expend more than \$750,000 in federal awards;
therefore, a Federal Single Audit under OMB Uniform Grant Guidance
is not applicable.*

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**SANTIAGO MIDDLE SCHOOL
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no audit findings related to the financial statements during 2019-20.

**SANTIAGO MIDDLE SCHOOL
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no audit findings and questioned costs related to state awards during 2019-20.

**SANTIAGO MIDDLE SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

There were no audit findings and questioned costs during 2018-19.