

Mill Falls Charter School

Financial Statements

For the Year Ended June 30, 2013

(With Independent Auditors' Report Thereon)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
SUPPLEMENTARY INFORMATION	
Schedule of Functional Expenses	14



MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

Independent Auditors' Report

To the Board of Directors
Mill Falls Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Mill Falls Charter School, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Mill Falls Charter School as of June 30, 2013, and the changes in 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Melanson, Heath + Company P.C.

Manchester, New Hampshire
December 17, 2013

Mill Falls Charter School

Statement of Financial Position
June 30, 2013

	<u>Unrestricted</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 147,189
Deposits held by others	4,875
Prepaid expenses	<u>20,239</u>
Total Current Assets	172,303
Property and Equipment, net	181,052
Other assets	<u>15,000</u>
TOTAL ASSETS	<u>\$ 368,355</u>
 <u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:	
Accrued liabilities	\$ 29,361
Deferred revenue	69,424
Notes payable - current	<u>35,586</u>
Total Current Liabilities	134,371
Long-Term Debt, net of current portion	116,845
Net Assets	<u>117,139</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 368,355</u>

The accompanying notes are an integral part of these financial statements.

Mill Falls Charter School

Statement of Activities

For the Year Ended June 30, 2013

	<u>Unrestricted</u>
Support and Revenue:	
Grants and contributions	\$ 714,958
Fundraising	<u>1,500</u>
Total Support and Revenue	716,458
Expenses:	
Program services	501,545
General and administrative	<u>169,021</u>
Total Expenses	<u>670,566</u>
Change in net assets	45,892
Net Assets, Beginning of Year	<u>71,247</u>
Net Assets, End of Year	<u><u>\$ 117,139</u></u>

The accompanying notes are an integral part of these financial statements.

Mill Falls Charter School

Statement of Cash Flows For the Year Ended June 30, 2013

	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>	
Change in net assets	\$ 45,892
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	39,406
Changes in operating assets and liabilities:	
Other current assets	(13,880)
Accrued payroll	29,361
Deferred revenue	<u>30,868</u>
Net Cash Provided By Operating Activities	131,647
<u>Cash Flows From Investing Activities:</u>	
Purchase of fixed assets	<u>(211,558)</u>
Net Cash Used By Investing Activities	(211,558)
<u>Cash Flows From Financing Activities:</u>	
Issuance of note payable	183,174
Payment of note payable	<u>(30,743)</u>
Net Cash Provided By Financing Activities	<u>152,431</u>
Net Change in Cash and Cash Equivalents	72,520
Cash and Cash Equivalents, Beginning	<u>74,669</u>
Cash and Cash Equivalents, Ending	\$ <u><u>147,189</u></u>
 SUPPLEMENTAL INFORMATION:	
Interest Paid	\$ <u><u>9,295</u></u>

The accompanying notes are an integral part of these financial statements.

Mill Falls Charter School

Notes to Financial Statements For the Year Ended June 30, 2013

1. Description of Organization

The Mill Falls Charter School (the School) is a public charter school located in Manchester, New Hampshire. The State of New Hampshire's Board of Education approved the School's charter on March 9, 2011. In the 2012/2013 school year the School served students in grades kindergarten through 3rd. The School will continue to grow, adding one grade annually to reach its full K-6th offering in its first charter period (a 5 year agreement with the New Hampshire Department of Education).

The Mill Falls Charter School is New Hampshire's first public Montessori School. The School establishes high academic achievement and standards through the use of a curriculum that merges the Common Core Curriculum with the Montessori Scope and Sequence. The academic program integrates the development of community and responsible global citizenship, a peaceful approach to conflict, and service learning opportunities.

In conjunction with the approval of the charter, the School established The Mill Falls Charter School Foundation (the Foundation). The Foundation is a separate non-profit foundation that is in the process of attaining 501(c)(3) tax status. The Foundation's purpose is to raise funds for Mill Falls Charter School to support the School's long-term financial sustainability.

2. Significant Accounting Policies

The School prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations. The significant accounting and reporting policies used by the School are described subsequently to enhance the usefulness and understandability of the financial statements.

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted Net Assets

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the School, the environment in which it operates, the

purposes specified in its organizing documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily Restricted Net Assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The School's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets are resources whose use by the School is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the School's donor-restricted funds that must be maintained in perpetuity are classified in this net asset class.

All revenues and net gains are reported as increases in unrestricted net assets in the Statement of Activities unless the use of the related resources is subject to temporary or permanent donor restrictions.

As of June 30, 2013 the School had only Unrestricted Net Assets.

Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting donor restrictions.

Property and Equipment

Property and equipment is reported in the Statement of Financial Position at cost, if purchased, and at fair value at the date of donation, if donated. Property and equipment is capitalized if it has a cost of \$1,500 or more and a useful life when acquired of more than 3 years. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Property and equipment is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Gifts-in-Kind Contributions

The School periodically receives contributions in a form other than cash or investments. Contributed property and equipment is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the School's capitalization policy. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

The School benefits from personal services provided by a substantial number of volunteers including the School's Board of Directors. Those volunteers have donated significant amounts of time and services in the School's program operations, administration, and in its fund-raising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue is subject to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. The School's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the School.

Expense Recognition and Allocation

The cost of providing the School's programs and other activities is summarized on a functional basis in the Statement of Activities and Schedule of Functional Expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the School.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the School's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The School's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Tax Status

As of June 30, 2013 the Mill Falls Charter School has not received a determination letter from the Internal Revenue Service as to the tax status of the School.

Fair Value Measurements

The School reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and

minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the School has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the School measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

3. Concentration of Credit Risk - Cash and Cash Equivalents

The carrying amount of the School's deposits with financial institutions was fully insured at June 30, 2013.

4. Deposit Held By Others

In accordance with the lease agreement the School has paid a security deposit of one month's rent. The Union Leader Corporation will return the one month's rent at the conclusion of the tenancy per the terms of the lease agreement.

5. Prepaid Expenses

At year end, the School had prepaid expenses that included insurance and rent for July 2013.

6. Property, Equipment and Depreciation

A summary of the major components of property and equipment is presented below:

	<u>2013</u>
Land improvements	\$ 4,889
Leasehold improvements	212,374
Furniture, fixtures and equipment	<u>3,195</u>
Sub total	220,458
Less: accumulated depreciation	<u>(39,406)</u>
Total	<u>\$ 181,052</u>

Depreciation expense for the year ended June 30, 2013 totaled \$39,406.

7. Other Assets

Other assets represents \$15,000 paid to the Union Leader for pre-occupancy rent. The Union Leader has agreed that rent to be paid in the fifth year of the lease will be reduced by \$15,000.

8. Accrued Liabilities

Accrued liabilities represent 2013 payroll-related expenses paid after year end.

9. Deferred Revenue

Deferred revenue consists primarily of Federal Grant revenues that have been received in advance of applicable expenses. The federal revenue will be recognized when allowable costs are paid.

10. Net Assets Released from Restriction

Net assets are released from program restrictions by incurring expenses satisfying the restricted purpose satisfied. The School had no restricted assets, therefore no assets were released.

11. Long Term Debt

Long term debt as of June 30, 2013 consisted of the following:

Note payable, due in annual installments of \$43,767, including principal and interest at 6.00%, payable over 5 years, and secured by leasehold improvements.	\$ <u>152,431</u>
Total	152,431
Less amount due within one year portion	<u>(35,586)</u>
	<u>\$ 116,845</u>

The following is a summary of future payments on the previously mentioned long term debt.

<u>Year Ended</u>	<u>Amount</u>
2014	\$ 35,586
2015	37,784
2016	40,115
2017	<u>38,946</u>
Total	<u>\$ 152,431</u>

12. Operating Leases

The School leases office space under the terms of a lease agreement that is scheduled to expire in 2017. The following is a schedule of future minimum rental payments:

<u>Year Ended</u>	<u>Amount</u>
2014	\$ 74,250
2015	117,000
2016	117,000
2017	<u>117,000</u>
Total future minimum rental payments	<u>\$ 425,250</u>

Rent expense, which is included in occupancy costs in the statement of functional expenses, was \$59,193 for the year ended June 30, 2013.

13. Concentrations of Risk

A material part of the School's revenue is dependent upon government sources, the loss of which would have a materially adverse effect on the School. Of the \$716,458 in total support and revenue, the School received \$282,362 in a federal grant to aid in startup costs. In addition to the federal grant, the School's primary source of income is received through the State of New Hampshire based on per pupil head count. The amount received in 2013 was \$420,810.

14. Subsequent Events

Subsequent events have been evaluated through December 17, 2013, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Mill Falls Charter School

Schedule of Functional Expenses For the Year Ended June 30, 2013

	<u>Program Services</u>	<u>General and Administration</u>	<u>2013 Total</u>
Advertising	\$ -	\$ 1,746	\$ 1,746
Contracted and professional services:			
Accounting	-	1,752	1,752
Other	142,018	4,815	146,833
Debt service	-	9,295	9,295
Depreciation	28,421	10,985	39,406
Information technology	3,385	7,397	10,782
Insurance	-	3,336	3,336
Office expenses	11,149	3,163	14,312
Occupancy	44,395	26,133	70,528
Personnel expense:			
Salaries and wages	231,791	85,968	317,759
Employee benefits	20,720	6,907	27,627
Payroll taxes	19,666	7,274	26,940
Travel	-	250	250
	-	250	250
Total Functional Expenses	\$ 501,545	\$ 169,021	\$ 670,566

See Independent Auditors' Report.