

MILL FALLS CHARTER SCHOOL

Financial Statements

June 30, 2019

and

Independent Auditor's Report

**MILL FALLS CHARTER SCHOOL
FINANCIAL STATEMENTS
June 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mill Falls Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mill Falls Charter School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Mill Falls Charter School's basic financial statements as listed in the table of contents.

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mill Falls Charter School, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-v and 13-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vashon Clukay & Company PC

Manchester, New Hampshire
January 13, 2020



**MILL FALLS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2019**

Presented herewith, please find the Management Discussion and Analysis Report for the Mill Falls Charter School (the School) for the fiscal year ending June 30, 2019. Responsibility for both the accuracy of the data, and the completeness and fairness of this presentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the School's financial position, and the results of operations of the various funds of the School. All disclosures necessary to enable the reader to gain an accurate understanding of the School's financial activities have been included.

School Management is responsible for establishing an accounting and internal control structure designed to ensure that the physical, data, informational, intellectual, and human resource assets of the School are protected from loss, theft, and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

Overview of the Financial Statements

The financial statements presented herein include all the activities of the Mill Falls Charter School using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the Mill Falls Charter School's financial statements. The basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to most private-sector companies.

The Statement of Net Position presents information on all the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the remaining difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The Statement of Activities presents information showing how the School's net position changed during the most recent fiscal year. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School solely employs the use of governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School’s near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental activities Statement of Net Position and Statement of Activities.

The School maintains one individual governmental fund and a blended component unit. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balance for the General Fund and the Mill Falls Charter School Foundation Fund (a blended component unit).

The School has included information for the Mill Falls Charter School Foundation Fund, a separate non-profit organization, as a blended component unit. Inclusion in the financial statements was determined necessary as the Foundation exists solely for the benefit and support of the School. The Foundation does not issue separate financial statements.

The School adopts an annual budget for its General Fund. A budgetary comparison has been provided as required supplementary information for the General Fund to demonstrate performance against this budget.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which is required to be disclosed by accounting principles generally accepted in the United States of America.

Government-Wide Financial Analysis

Statement of Net Position

Net Position of the Mill Falls Charter School as of June 30, 2019 and 2018 is follows:

	<u>2019</u>	<u>2018</u>
Capital and Other Assets:		
Capital assets, net	\$ 1,123	\$ 9,290
Other assets	<u>1,392,657</u>	<u>1,125,783</u>
Total Assets	<u>1,393,780</u>	<u>1,135,073</u>
Deferred Outflows of Resources:		
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>
Long-term and Other Liabilities:		
Other liabilities	<u>144,498</u>	<u>129,591</u>
Total Liabilities	<u>144,498</u>	<u>129,591</u>
Deferred Inflows of Resources:		
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>
Net Position:		
Net investment in capital assets	1,123	9,290
Restricted	366,810	291,679
Unrestricted	<u>881,349</u>	<u>704,513</u>
Total Net Position	<u>\$ 1,249,282</u>	<u>\$ 1,005,482</u>

Statement of Activities

The change in net position for the fiscal years ending June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Program revenues:		
Charges for services	\$ 301,575	\$ 333,018
Operating grants and contributions	<u>24,503</u>	<u>42,486</u>
Total program revenues	<u>326,078</u>	<u>375,504</u>
General revenues:		
State adequacy education grant	1,141,249	1,118,964
State differentiated aid	53,430	55,383
State kindergarten aid	14,494	
Interest and investment earnings	15,004	741
Miscellaneous	<u>78,912</u>	<u>80,778</u>
Total general revenues	<u>1,303,089</u>	<u>1,255,866</u>
Total revenues	<u>1,629,167</u>	<u>1,631,370</u>
Program expenses:		
Instruction	620,846	614,158
Supporting services	295,582	299,842
General administration	297,658	264,015
Operation and maintenance of plant	<u>171,281</u>	<u>165,091</u>
Total program expenses	<u>1,385,367</u>	<u>1,343,106</u>
Change in net position	243,800	288,264
Net position - beginning of year	<u>1,005,482</u>	<u>717,218</u>
Net position - ending of year	<u>\$ 1,249,282</u>	<u>\$ 1,005,482</u>

MILL FALLS CHARTER SCHOOL ACTIVITIES

As shown in the above statement the School experienced an increase in net position of \$243,800 on the full accrual basis of accounting.

The General Fund ended the fiscal year with a total fund balance of \$881,349, which is an increase of \$176,836 from the prior year. The increase exceeded expectations as the School budgeted for a relatively modest decrease to fund balance of (\$83,476) in the current year. Increased per student funding from the State along with conservative spending contributed to the current year change. Additionally, the School saw sustained income from operations of the before and after school care program which brought in additional funds, as well as interest from a sweep account with the Bank of NH.

GENERAL FUND BUDGETARY HIGHLIGHTS

This year the school sought Title Funds which were applied to programmatic budget items as allowed by this form of federal funds. The school's robust kinder program of 3.5 hours exceeded the state's ½ day funding total and thus the school was able to access a small portion of the Kino-funded full-day kindergarten programming dollars, which also helped offset costs.

Actual revenues and other financing sources on the budgetary basis exceeded budgeted amounts by \$187,609. Actual expenditures were under budgeted amounts by \$72,703. These factors contributed to the School realizing a positive change to fund balance of \$176,836 in the current year. See Schedule 1 on page 13 for additional information regarding budgetary activity.

CAPITAL ASSETS

Mill Falls Charter School considers a capital asset to be an asset whose costs exceed or equal \$1,500 and has a useful life of greater than three years. Assets are depreciated using the straight-line method over the course of their estimated useful life. Current year depreciation expense exceeded capital asset additions by (\$8,167). See Note 4 in the notes to the basic financial statements for additional information on the capital assets activity.

LONG-TERM OBLIGATIONS

As of June 30, 2019, the School has no long-term obligations outstanding.

ECONOMIC FACTORS AND FY 2019

The initial approved operating budget for FY 2019 projected a minor increase in fund balance of \$1594.

Like all charter schools, Mill Falls receives a set, per-student amount from the State of New Hampshire, which is called Equitable Aid. This state aid is built in to the state's legislative budget. The projected Equitable Aid is included in the School's budget annually, and is paid out by the State in four (not necessarily equal) portions during the year. This per-student aid is less than half of what students at traditional public schools receive. The State provides charter schools with approximately \$3,700.08 per student (grades 1-12; less for kinders) on top of the basic equitable aid given all NH students. And while NH towns and cities put local property tax toward their education costs above and beyond the basic equitable aid, Charter schools have no access to such property taxes. Nor do charter schools receive any funds from the towns in which they are located. As such, Mill Falls does not receive any funding from the Manchester School District or the City of Manchester. As per charter law, sending districts are responsible for costs related to Special Education of their resident students with Individualized Education

Plans (IEPs) who attend charter schools. And the district where the school is located is required to offer busing to its resident students.

Like all New Hampshire charter schools, Mill Falls is expected to fundraise the dollars needed to make up the difference between the Equitable Aid and the cost of its educational program. The Mill Falls Charter School Foundation has continued to raise funds on behalf of the school. In addition, the school administration in partnership with the parent community, has established some annual school-based fundraising programming, and the school's Child Care Program, established in FY 2016, generates significant revenues. Both the Foundation and the School have sweep accounts which generated interest throughout the year at a rate of 1.9% for most of the year.

It is important to note that, based on the charter-funding model which is so far below funding for other public schools, along with anticipated school growth including the renegotiation of our lease which happened at the end of our 5th year of operation, we can expect that an operating deficit will need to be addressed each year. The School and Foundation continue to work diligently to stay ahead of this need through ongoing fundraising and related awareness campaigns.

CONTACTING MILL FALLS CHARTER SCHOOL

This financial report is intended to provide a general overview of the Mill Falls Charter School's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, contact Mill Falls Charter School, 100 William Loeb Drive, Unit 1, Manchester, New Hampshire 03109 or by telephone at (603) 232-5176.

EXHIBIT A
MILL FALLS CHARTER SCHOOL
Statement of Net Position
June 30, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,179,710
Investments	203,133
Accounts receivable	1,195
Prepaid expenses	3,744
Deposits held by others	4,875
Total Current Assets	<u>1,392,657</u>
Noncurrent Assets:	
Capital assets:	
Depreciable capital assets, net	<u>1,123</u>
Total Noncurrent Assets	<u>1,123</u>
Total Assets	<u>1,393,780</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	7,163
Accrued expenses	134,885
Unearned revenue	2,450
Total Current Liabilities	<u>144,498</u>
Noncurrent liabilities:	
Total Noncurrent Liabilities	<u>-</u>
Total Liabilities	<u>144,498</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Net investment in capital assets	1,123
Restricted for:	
Foundation funding	366,810
Unrestricted	881,349
Total Net Position	<u>\$ 1,249,282</u>

See accompanying notes to the basic financial statements

EXHIBIT B
MILL FALLS CHARTER SCHOOL
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for</u>	<u>Operating</u>	<u>and Changes</u>
Governmental Activities:		<u>Services</u>	<u>Grants and</u>	<u>in Net Position</u>
			<u>Contributions</u>	<u>Governmental</u>
				<u>Activities</u>
Instruction	\$ 620,846			\$ (620,846)
Supporting services	295,582	\$ 204,579		(91,003)
General administration	297,658	96,996	\$ 24,503	(176,159)
Operation and maintenance of plant	171,281			(171,281)
Total governmental activities	<u>\$ 1,385,367</u>	<u>\$ 301,575</u>	<u>\$ 24,503</u>	<u>(1,059,289)</u>
General revenues:				
				1,141,249
State adequacy education grant				53,430
State differentiated aid				14,494
State kindergarten aid				15,004
Interest and investment earnings				78,912
Miscellaneous				<u>1,303,089</u>
Total general revenues				243,800
Change in net position				<u>1,005,482</u>
Net Position - beginning of year				<u>\$ 1,249,282</u>
Net Position - end of year				

See accompanying notes to the basic financial statements

EXHIBIT C
MILL FALLS CHARTER SCHOOL
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Mill Falls Charter School Foundation Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,016,033	\$ 163,677	\$ 1,179,710
Investments		203,133	203,133
Accounts receivable	1,195		1,195
Prepaid expenses	3,744		3,744
Deposits held by others	4,875		4,875
Total Assets	<u>1,025,847</u>	<u>366,810</u>	<u>1,392,657</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,025,847</u>	<u>\$ 366,810</u>	<u>\$ 1,392,657</u>
LIABILITIES			
Accounts payable	\$ 7,163		\$ 7,163
Accrued expenses	134,885		134,885
Unearned revenue	2,450		2,450
Total Liabilities	<u>144,498</u>	<u>\$ -</u>	<u>144,498</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
<i>Nonspendable:</i>			
Prepaid expenses	3,744		3,744
Deposits held by others	4,875		4,875
<i>Restricted for:</i>			
Foundation funding		366,810	366,810
<i>Unassigned:</i>			
Unassigned - General operations	872,730		872,730
Total Fund Balances	<u>881,349</u>	<u>366,810</u>	<u>1,248,159</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,025,847</u>	<u>\$ 366,810</u>	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			<u>1,123</u>
Net Position of Governmental Activities			<u>\$ 1,249,282</u>

See accompanying notes to the basic financial statements

EXHIBIT D
MILL FALLS CHARTER SCHOOL
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	Mill Falls Charter School Foundation Fund	Total Governmental Funds
Revenues:			
Intergovernmental	\$ 1,209,173		\$ 1,209,173
Charges for services	301,575		301,575
Interest income	11,552	\$ 3,452	15,004
Miscellaneous	<u>24,503</u>	<u>78,912</u>	<u>103,415</u>
Total Revenues	<u>1,546,803</u>	<u>82,364</u>	<u>1,629,167</u>
Expenditures:			
Current operations:			
Instruction	613,165		613,165
Supporting services	295,582		295,582
General administration	292,489	4,683	297,172
Operation and maintenance of plant	<u>171,281</u>		<u>171,281</u>
Total Expenditures	<u>1,372,517</u>	<u>4,683</u>	<u>1,377,200</u>
Excess revenues over expenditures	<u>174,286</u>	<u>77,681</u>	<u>251,967</u>
Other financing sources (uses):			
Transfers in	2,550		2,550
Transfers out		<u>(2,550)</u>	<u>(2,550)</u>
Total other financing sources (uses)	<u>2,550</u>	<u>(2,550)</u>	<u>-</u>
Net change in fund balances	176,836	75,131	251,967
Fund balances at beginning of year	<u>704,513</u>	<u>291,679</u>	<u>996,192</u>
Fund balances at end of year	<u>\$ 881,349</u>	<u>\$ 366,810</u>	<u>\$ 1,248,159</u>

MILL FALLS CHARTER SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2019

Net Change in Fund Balances--Total Governmental Funds	\$ 251,967
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	<u>(8,167)</u>
Change in Net Position of Governmental Activities	<u>\$ 243,800</u>

See accompanying notes to the basic financial statements

**MILL FALLS CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Mill Falls Charter School conform to accounting principles generally accepted in the United States of America for local educational units of government, except as indicated hereinafter. The Mill Falls Charter School is organized as a public charter school to provide educational services as authorized by the State of New Hampshire Department of Education. The provisions of the State of New Hampshire RSA 194-B:10 requires public charter schools to comply with the same financial reporting requirements imposed upon a traditional public school district, on a governmental basis of presentation. Accordingly, the Mill Falls Charter School's basis of presentation follows the governmental reporting model. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Mill Falls Charter School (the School) is a public charter school as defined by the provisions of the State of New Hampshire RSA 194-B Chartered Public School. Mill Falls Charter School is the first public Montessori School in New Hampshire. The School is governed by a Board of Trustees and operates under a charter approved on March 9, 2011. The School was formed to create a free, diverse and public school that merges the Montessori method with the Common Core Curriculum.

The financial statements of the following organization are included in this report as a blended component unit:

The *Mill Falls Charter School Foundation* (the "Foundation") is a non-profit organization created for the sole purpose of raising funds for Mill Falls Charter School in support of the school's long-term financial sustainability. The Foundation is governed by a separately appointed Board of Directors. The Foundation is organized under Internal Revenue Code 501(c)(3) and, therefore, has no provision for federal income taxes. The Foundation does not issue separate financial statements.

Basis of Presentation

The School's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-Wide Financial Statements:

The statement of net position and the statement of activities display information about the School as a whole. These statements include the financial activities of the primary government.

The statement of net position presents the financial condition of the governmental activities of the School at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that are required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general

**MILL FALLS CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019**

revenues of the School. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

2. Fund Financial Statements:

During the year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

Fund Accounting

The School uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School solely employs the use of governmental funds.

1. Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is reported as fund balance. The following are the School's major governmental funds:

The *General Fund* is the main operating fund of the School and is used to account for all financial resources except those required to be accounted for in another fund.

The *Mill Falls Charter School Foundation Fund* is used to account for the financial transactions related to various fundraisers, events and donations for the sole purpose of funding the School.

Measurement Focus

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the School are included on the Statement of Net Position.

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This

**MILL FALLS CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019**

approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State adequacy funding, grants and student fees.

Grants and entitlements received before the eligibility requirements are met are recorded as advances from grantors.

2. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

**MILL FALLS CHARTER SCHOOL
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2019**

Budgetary Data

The School's budget represents functional appropriations as authorized by the Board of Trustees. The Board of Trustees may transfer funds between operating categories as they deem necessary.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items and include prepaid insurance.

Deposits held by Others

Deposits held by others at June 30, 2019 represents a security deposit paid to the School's landlord in accordance with the lease agreement and is fully refundable at the conclusion of tenancy if there is no default or uncured damage.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The School maintains a capitalization threshold of \$1,500 and useful life of 3 or more years. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Description</u>	<u>Years</u>
	Land improvements	5
	Leasehold improvements	3-5
	Furniture, fixtures and equipment	5

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of the funds. Long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**MILL FALLS CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019**

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the residual amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The School's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance Policy

As of June 30, 2019, the School has not adopted a formal fund balance policy. Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- ***Nonspendable Fund Balance***: Amounts that are not in a spendable form or are required to be maintained intact.
- ***Restricted Fund Balance***: Amounts constrained to specific purposes stipulated by external resource providers or through enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers or by the enabling legislation.
- ***Committed Fund Balance***: Amounts constrained to specific purposes by the entity itself using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the entity takes the same highest-level action to remove or change the constraint.
- ***Assigned Fund Balance***: Amounts an entity intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- ***Unassigned Fund Balance***: Amounts that are available for any purpose; these amounts are reported only in the General Fund, except for any deficit fund balance of another governmental fund.

In circumstances where expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts then unassigned amounts.

**MILL FALLS CHARTER SCHOOL
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2019**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2—RISK MANAGEMENT

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2019, the School purchased commercial insurance to manage risks related to property and liability and worker’s compensation claims.

NOTE 3—DEPOSITS

Deposits as of June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 1,179,710
Investments	<u>203,133</u>
	<u>\$ 1,382,843</u>

Deposits at June 30, 2019 consist of the following:

Cash on hand	\$ 38,010
Deposits with financial institutions	<u>1,344,833</u>
	<u>\$ 1,382,843</u>

As of June 30, 2019, the School has not formally adopted an investment policy that limits allowable deposits of the School. The School’s deposits with financial institutions consist of demand deposits, certificates of deposit, and an insured cash sweep account at year end. The Mill Falls Charter School Foundation Fund’s investment policy limits investments to publicly-traded common and preferred stocks, convertible bonds and preferred stocks, bank common funds, mutual funds and fixed-income securities (including corporate bonds and money market instruments).

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the School’s deposits may not be returned. Currently, the School and Foundation do not have an investment policy for assurance against custodial credit risk. The School’s and the Foundation’s entire balances of deposits with financial institutions were covered by federal depository insurance.

**MILL FALLS CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019**

NOTE 4—CAPITAL ASSETS

The following is a summary of changes in capital assets of the governmental activities:

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2019</u>
Capital assets:				
Land improvements	\$ 4,889			\$ 4,889
Leasehold improvements	261,935			261,935
Furniture, fixtures and equipment	<u>52,829</u>			<u>52,829</u>
Total capital assets at historical cost	<u>319,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>319,653</u>
Less accumulated depreciation for:				
Land improvements	(4,889)			(4,889)
Leasehold improvements	(261,935)			(261,935)
Furniture, fixtures and equipment	<u>(43,539)</u>	<u>(8,167)</u>		<u>(51,706)</u>
Total accumulated depreciation	<u>(310,363)</u>	<u>(8,167)</u>	<u>-</u>	<u>(318,530)</u>
Total capital assets, net	<u>\$ 9,290</u>	<u>\$ (8,167)</u>	<u>\$ -</u>	<u>\$ 1,123</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 7,681
General administration	<u>486</u>
	<u>\$ 8,167</u>

NOTE 5—LEASE COMMITMENTS

Operating Lease

In April 2012, the School entered into a lease agreement for its operating facility (School campus) which was set to expire on June 30, 2017. During January 2017, the School renewed its lease agreement for an additional 5-year term. Future minimum payments under the lease agreement will be at a base amount of \$10,500 per month increased by the Consumer Price Index for the Boston Metropolitan Region, but not more than 3% in any one year pursuant to this provision. Total monthly payments under the terms of the lease agreement for the year ended June 30, 2019 were \$129,780.

Future minimum annual commitments for rental payments at June 30, 2019 are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2020	\$ 129,780
2021	129,780
2022	<u>129,780</u>
	<u>\$ 389,340</u>

**MILL FALLS CHARTER SCHOOL
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2019**

NOTE 6—INTERFUND TRANSFERS

During the year, an interfund transaction occurred between funds. The Mill Falls Charter School Foundation Fund transferred \$2,550 to the General Fund to support current year school operations. The transfer was properly requested and approved by the Boards of Trustees.

NOTE 7—SIGNIFICANT CONCENTRATION OF REVENUE RISK

As a public charter school, the School annually receives adequacy, differentiated and kindergarten aid funding from the State of New Hampshire Department of Education on a per pupil basis of average daily membership attendance at a rate determined by the State. Total adequacy, differentiated and kindergarten aid funding received for the year ended June 30, 2019 was \$1,209,173 which is approximately 74% and 78% of total Governmental Activities and General Fund revenues, respectively.

NOTE 8—CONTINGENCIES

Litigation

There may be various claims and suits pending against the School, which arise in the normal course of the School's activities. In the opinion of School management, any potential claims against the School, which are not covered by insurance are immaterial and would not affect the financial position of the School.

SCHEDULE 1
MILL FALLS CHARTER SCHOOL
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,202,154	\$ 1,202,154	\$ 1,209,173	\$ 7,019
Charges for services	159,450	159,450	301,575	142,125
Interest income	140	140	11,552	11,412
Miscellaneous	-	-	24,503	24,503
Total Revenues	<u>1,361,744</u>	<u>1,361,744</u>	<u>1,546,803</u>	<u>185,059</u>
Expenditures:				
Current operations:				
Instruction	671,105	671,105	613,165	57,940
Supporting services	332,114	332,114	295,582	36,532
General administration	270,121	270,121	292,489	(22,368)
Operation and maintenance of plant	171,880	171,880	171,281	599
Total Expenditures	<u>1,445,220</u>	<u>1,445,220</u>	<u>1,372,517</u>	<u>72,703</u>
Excess of revenues over (under) expenditures	<u>(83,476)</u>	<u>(83,476)</u>	<u>174,286</u>	<u>257,762</u>
Other financing sources:				
Transfers in	-	-	2,550	2,550
Total other financing sources	<u>-</u>	<u>-</u>	<u>2,550</u>	<u>2,550</u>
Net change in fund balance	(83,476)	(83,476)	176,836	260,312
Fund balance at beginning of year				
- Budgetary Basis	<u>704,513</u>	<u>704,513</u>	<u>704,513</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 621,037</u>	<u>\$ 621,037</u>	<u>\$ 881,349</u>	<u>\$ 260,312</u>

See accompanying notes to the required supplementary information

**MILL FALLS CHARTER SCHOOL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019**

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the School. Those amounts may differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). There were no such budgetary differences to be reported for the year ended June 30, 2019.

Major Special Revenue Fund

Budgetary information in these financial statements has been presented only for the General Fund, as there is no adopted budget for the Mill Falls Charter School Foundation Fund (a blended component unit).