

ARTS ACADEMY OF NEW HAMPSHIRE

Financial Statements

June 30, 2022

and

Independent Auditor's Report

**ARTS ACADEMY OF NEW HAMPSHIRE
FINANCIAL STATEMENTS
June 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Arts Academy of New Hampshire

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Arts Academy of New Hampshire, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Arts Academy of New Hampshire's basic financial statements as listed in the table of contents.

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 Arts Academy of New Hampshire, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Arts Academy of New Hampshire, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arts Academy of New Hampshire's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arts Academy of New Hampshire's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arts Academy of New Hampshire's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Vachon Clukay & Company PC

Manchester, New Hampshire

April 11, 2023

**ARTS ACADEMY OF NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2022**

Presented herewith, please find the Management Discussion and Analysis Report for the Arts Academy of New Hampshire (the Academy) for the fiscal year ending June 30, 2022. 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 Academy's financial position, and the results of operations of the various funds of the Academy. All disclosures necessary to enable the reader to gain an accurate understanding of the Academy's financial activities have been included.

Academy 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 Academy 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 of the activities of the Arts Academy of New Hampshire using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the Arts Academy of New Hampshire'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 Academy's finances, in a manner similar to most private-sector companies.

The Statement of Net Position presents information on all of the Academy'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 Academy is improving or deteriorating.

The Statement of Activities presents information showing how the Academy'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 Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Academy solely employs the use of governmental funds.

**ARTS ACADEMY OF NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2022**

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 Academy'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 Academy maintains one individual governmental fund. Information is presented separately in the governmental fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, which is the Academy's sole major fund.

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 Arts Academy of New Hampshire as of June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Capital and Other Assets:		
Capital assets, net	\$ 1,093,886	\$ 54,230
Other assets	<u>409,678</u>	<u>392,442</u>
Total Assets	<u>1,503,564</u>	<u>446,672</u>
Deferred Outflows of Resources:		
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>

**ARTS ACADEMY OF NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2022**

Long-term and Other Liabilities:		
Long-term liabilities	1,003,230	-
Other liabilities	<u>171,958</u>	<u>124,891</u>
Total Liabilities	<u>1,175,188</u>	<u>124,891</u>
Deferred Inflows of Resources:		
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>
Net Position:		
Net investment in capital assets	11,995	54,230
Unrestricted	<u>316,381</u>	<u>267,551</u>
Total Net Position	<u>\$ 328,376</u>	<u>\$ 321,781</u>

Statement of Activities

The changes in net position for the fiscal years ending June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Program revenues:		
Charges for services	\$ 69,277	\$ 66,119
Operating grants and contributions	<u>139,588</u>	<u>129,409</u>
Total program revenues	<u>208,865</u>	<u>195,528</u>
General revenues:		
State adequacy education and differentiated aid	852,787	792,476
Interest and investment earnings	234	161
Miscellaneous	155,150	177,615
PPP loan forgiveness		86,909
Total general revenues	<u>1,008,171</u>	<u>1,057,161</u>
Total revenues	<u>1,217,036</u>	<u>1,252,689</u>
Program expenses:		
Instruction	545,807	509,838
General administration	325,696	366,547
Operation and maintenance of plant	248,940	246,096
Food service	252	640
Interest and fiscal charges	<u>89,746</u>	<u>1,648</u>
Total program expenses	<u>1,210,441</u>	<u>1,124,769</u>
Change in net position	6,595	127,920
Net position - beginning of year	<u>321,781</u>	<u>193,861</u>
Net position - ending of year	<u>\$ 328,376</u>	<u>\$ 321,781</u>

GRANITE STATE ARTS ACADEMY ACTIVITIES

Governmental Activities

**ARTS ACADEMY OF NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2022**

As shown in the above statement, the Academy experienced an increase in net position of \$6,595 on the full accrual basis of accounting. The change is mainly driven by the Academy's revenues in excess of the expenses, which is mainly the result of the Academy receiving an increase in adequacy aid and lease aid, which helped to offset the PPP that was no longer applicable.

General Fund

The General Fund ended the fiscal year with a total fund balance of \$316,381, an increase of \$48,830 from the prior year. As noted above in the governmental activities analysis, the Academy received additional funding from grants to offset the PPP which is no longer applicable.

CAPITAL ASSETS

The Academy does not maintain a capitalization threshold regarding the dollar value or estimated useful lives of capital assets. Assets are depreciated using the straight-line method over the course of their estimated useful life. Current year capital asset activity included depreciation on existing assets. See Note 3 in the notes to the basic financial statements for additional information on the capital assets activity.

ECONOMIC FACTORS

As of this date the school is still receiving \$7,388 per student for adequacy, a slight increase of \$200 after a four year period of no increases. While this a welcomed increase, it is woefully insufficient to make any real impact on the schools financial situation. There are currently bills in the NH Legislature that could potentially increase adequacy by \$1000 per student and possibly an additional \$500 for a total of \$1500 increase. This will be voted on in June so as of this writing it is still undetermined but if passed would allow for more financial security which in turn would allow the Academy to offer more competitive salaries and benefits, among other things.

The Academy has an aggressive fundraising strategy that bolsters income including gaining access to The Brook, a gaming room that donates money to non profits. The first year proved to be very successful and we are scheduled again for the fall of 2023. The Academy is diligent in utilizing as much grant money as possible including ESSER, Title 1 and Title 4 to supplement income streams. Currently there is a reserve fund of approximately \$372,000, which increased in this fiscal year and is a cushion against unforeseen expenses or drop in enrollment. It is a goal of the Academy to continue to grow this fund and perhaps invest it, something the Board will be discussing in the near future. Toward that goal, the Board of Trustees recently adopted an investment policy. No investments have been made to date but the plan is to evaluate the reserve funds at the end of the fiscal year and make a decision on investing at that time. The Board is currently looking into various investment advisors for that future probability. The reserve also helps to avoid tapping the line of credit held at Enterprise Bank which brings added costs. Overall, the Academy is in a better financial situation than it has been since its inception, but unless adequacy is increased by the state, future financial realities may prove challenging.

CONTACTING GRANITE STATE ARTS ACADEMY

This financial report is intended to provide a general overview of the Arts Academy of New Hampshire's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, contact Arts Academy of New Hampshire, 19 Keewaydin Drive Unit #4 Salem NH 03079 or by telephone at (603) 912-4944.

EXHIBIT A
ARTS ACADEMY OF NEW HAMPSHIRE
Statement of Net Position
June 30, 2022

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 365,710
Accounts receivable	10,792
Due from State of New Hampshire	3,176
Deposits held by others	<u>30,000</u>
Total Current Assets	<u>409,678</u>
Noncurrent Assets:	
Capital assets:	
Depreciable capital assets, net	<u>1,093,886</u>
Total Noncurrent Assets	<u>1,093,886</u>
Total Assets	<u>1,503,564</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accrued liabilities	93,297
Current portion of lease liability	<u>78,661</u>
Total Current Liabilities	<u>171,958</u>
Noncurrent liabilities:	
Lease liability	<u>1,003,230</u>
Total Noncurrent Liabilities	<u>1,003,230</u>
Total Liabilities	<u>1,175,188</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Net investment in capital assets	11,995
Unrestricted	<u>316,381</u>
Total Net Position	<u>\$ 328,376</u>

See accompanying notes to the basic financial statements

EXHIBIT B
ARTS ACADEMY OF NEW HAMPSHIRE
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental Activities:		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Instruction	\$ 545,807	\$ 69,277	\$ 60,020	\$ (416,510)
General administration	325,696		36,360	(289,336)
Operation and maintenance of plant	248,940		43,208	(205,732)
Food service	252			(252)
Interest and fiscal charges	89,746			(89,746)
Total governmental activities	<u>\$ 1,210,441</u>	<u>\$ 69,277</u>	<u>\$ 139,588</u>	<u>(1,001,576)</u>
General revenues:				
				808,135
				44,652
				234
				<u>155,150</u>
Total general revenues				<u>1,008,171</u>
Change in net position				6,595
Net Position at beginning of year				<u>321,781</u>
Net Position at end of year				<u>\$ 328,376</u>

See accompanying notes to the basic financial statements

EXHIBIT C
ARTS ACADEMY OF NEW HAMPSHIRE
Balance Sheet
Governmental Funds
June 30, 2022

	General <u>Fund</u>	Total Governmental <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 365,710	\$ 365,710
Accounts receivable	10,792	10,792
Due from State of New Hampshire	3,176	3,176
Deposits held by others	<u>30,000</u>	<u>30,000</u>
Total Assets	<u>409,678</u>	<u>409,678</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 409,678</u>	<u>\$ 409,678</u>
LIABILITIES		
Accrued liabilities	<u>\$ 93,297</u>	<u>\$ 93,297</u>
Total Liabilities	<u>93,297</u>	<u>93,297</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>
FUND BALANCES		
<i>Nonspendable:</i>		
Deposits held by others	30,000	30,000
<i>Unassigned:</i>		
Unassigned - General operations	<u>286,381</u>	<u>286,381</u>
Total Fund Balances	<u>316,381</u>	<u>316,381</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 409,678</u>	<u>\$ 409,678</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1
ARTS ACADEMY OF NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2022

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 316,381
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.	1,093,886
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of the following:	
Lease liability	<u>(1,081,891)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 328,376</u>

See accompanying notes to the basic financial statements

EXHIBIT D
ARTS ACADEMY OF NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2022

	General <u>Fund</u>	Total Governmental <u>Funds</u>
Revenues:		
Intergovernmental	\$ 992,375	\$ 992,375
Charges for services	69,277	69,277
Interest income	234	234
Miscellaneous	<u>155,150</u>	<u>155,150</u>
Total Revenues	<u>1,217,036</u>	<u>1,217,036</u>
Expenditures:		
Current operations:		
Instruction	542,266	542,266
General administration	364,100	364,100
Operation and maintenance of plant	261,250	261,250
Food service	220	220
Debt service:		
Interest and fiscal charges	<u>370</u>	<u>370</u>
Total Expenditures	<u>1,168,206</u>	<u>1,168,206</u>
Net change in fund balances	48,830	48,830
Fund Balances at beginning of year	<u>267,551</u>	<u>267,551</u>
Fund Balances at end of year	<u>\$ 316,381</u>	<u>\$ 316,381</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1
ARTS ACADEMY OF NEW HAMPSHIRE
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, 2022

Net Change in Fund Balances - Governmental Funds (Exhibit D) \$ 48,830

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 and amortization expense. Capital
outlays and depreciation and amortization expense in the current period
are as follows:

Capital outlays	42,662
Depreciation expense	(12,114)
Amortization expense	(144,158)

Repayment of lease principal on lease liabilities is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities
in the statement of net position. Repayments in the current year
are as follows:

Lease principal paid	<u>71,375</u>
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Change in Net Position of Governmental Activities (Exhibit B) \$ 6,595

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Arts Academy of New Hampshire conform to accounting principles generally accepted in the United States of America for local educational units of government, except as indicated hereinafter. The Arts Academy of New Hampshire is organized as a nonprofit organization to provide public charter school 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 Arts Academy of New Hampshire’s basis of presentation follows the governmental reporting model. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Arts Academy of New Hampshire (the “Academy”) is a public charter school as defined by the provisions of the State of New Hampshire RSA 194-B Chartered Public School. The Academy is organized as a 501(c)(3) nonprofit public charity granted status under section 170(b)(1)(A)(ii) of the Internal Revenue Code. The Academy is governed by a Board of Trustees and operates under a charter approved by the State of New Hampshire on August 19, 2013. The mission of the Academy is to nurture creative thinkers, active citizens, and independent learners with a curriculum that integrates the arts and academics. The Academy’s vision is a high school that is dedicated to the arts.

Basis of Presentation

The Academy’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 Academy 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 Academy at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Academy’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 revenues of the Academy. 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 Academy.

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

2. Fund Financial Statements:

During the year, the Academy may segregate transactions related to certain 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 Academy 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 Academy 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 Academy 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 is the Academy's sole major governmental fund:

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

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 Academy 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 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.

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

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 Academy, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Academy 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy 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. Unearned revenue arises when assets are recognized before revenue recognition criteria has been satisfied.

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.

Budgetary Data

The Academy'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.

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

Due from State of New Hampshire

Receivables due from the State of New Hampshire (Department of Education) at June 30, 2022 consists of reimbursable grant projects.

Deposits held by Others

Deposits held by others at June 30, 2022 consists of a security deposit paid to the Academy's landlord in accordance with the existing lease agreement.

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 Academy does not maintain a capitalization threshold regarding the dollar value or estimated useful lives of the assets. 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>
Equipment		5-20
Furniture and Fixtures		5-10
Leasehold improvements		12

Lease Liabilities and Leased Assets

Lease liabilities are measured at present value or payments expected to be made during the lease term. Leased assets are measured at the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs and are amortized on a straight-line basis over the life of the related lease.

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.

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

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 Academy 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 Academy'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, 2022, the Academy has not adopted a formal fund balance policy. Under GASB Statement 54, the Academy 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.

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

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—DEPOSITS

Deposits as of June 30, 2022, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	<u>\$ 365,710</u>
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Deposits at June 30, 2022 consist of the following:

Cash on hand	\$ 231
Deposits with financial institutions	<u>365,479</u>
	<u>\$ 365,710</u>

As of June 30, 2022, the Academy has not formally adopted an investment policy that limits allowable deposits of the Academy. The Academy’s deposits with financial institutions consist solely of demand deposits at year end.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Academy’s deposits may not be returned. Currently, the Academy has no investment policy for assurance against custodial credit risk. Of the Academy’s deposits with financial institutions at year end, \$120,326 was uncollateralized and uninsured.

NOTE 3—CAPITAL ASSETS

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

	(As Restated)			
	Balance			Balance
	<u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>
Capital assets:				
Equipment	\$ 63,147	\$ 42,662		\$ 105,809
Furniture and fixtures	51,229			51,229
Leasehold improvements	51,393			51,393
Leased building	<u>1,153,266</u>			<u>1,153,266</u>
Total capital assets at historical cost	<u>1,319,035</u>	<u>42,662</u>	<u>\$ -</u>	<u>1,361,697</u>

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

Less accumulated depreciation for:				
Equipment	(61,094)	(4,369)		(65,463)
Furniture and fixtures	(33,313)	(3,462)		(36,775)
Leasehold improvements	(17,132)	(4,283)		(21,415)
Less accumulated amortization for:				
Leased building		(144,158)		(144,158)
Total accumulated depreciation and amortization	<u>(111,539)</u>	<u>(156,272)</u>	<u>-</u>	<u>(267,811)</u>
Total Capital assets, net	<u>\$ 1,207,496</u>	<u>\$ (113,610)</u>	<u>\$ -</u>	<u>\$ 1,093,886</u>

Depreciation and amortization expense was charged to governmental functions as follows:

Instruction	\$ 3,541
General administration	4,258
Operation and maintenance of plant	148,441
Food service	32
	<u>\$ 156,272</u>

The balance of assets acquired through leases as of June 30, 2022 are as follows:

Leased building	\$ 1,153,266
Less: Accumulated amortization	<u>(144,158)</u>
	<u>\$ 1,009,108</u>

NOTE 4—SHORT-TERM OBLIGATIONS

In June 2017, the Academy entered into an agreement with its primary financial institution for a working line of credit. The terms of the agreement state a \$50,000 available credit limit. The interest rate on the line of credit is 5.75% at June 30, 2022. The line of credit is secured by all of the Academy's business assets. At June 30, 2022, the Academy had no outstanding balance on its line of credit.

Changes in the Academy's short-term obligations for the year ended June 30, 2022 are as follows:

	Balance			Balance
	<u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>
Line of credit	<u>\$ 32,500</u>	<u>\$ -</u>	<u>\$ (32,500)</u>	<u>\$ -</u>

NOTE 5—LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the governmental activities for the year ended June 30, 2022 are as follows:

	(As Restated)				
	Balance			Balance	Due Within
	<u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>One Year</u>
Lease liability	<u>\$ 1,153,266</u>	<u>\$ -</u>	<u>\$ (71,375)</u>	<u>\$ 1,081,891</u>	<u>\$ 78,661</u>

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

Lease Liability

Lease liabilities represent contracts that convey control of the right to use another entities nonfinancial assets for a specified period of time. The following is the sole individual lease liability outstanding at June 30, 2022:

<u>Description of Asset</u>	<u>Date</u>	<u>Payment Terms</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Total Lease Liability</u>	<u>Balance at June 30, 2022</u>
Building lease	May 2016	Monthly	\$ 71,375	8.75%	\$ 1,153,266	\$ 1,081,891

Annual requirements to amortize the lease liability and related interest at June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 78,661	\$ 91,593	\$ 170,254
2024	100,237	83,874	184,111
2025	124,208	74,157	198,365
2026	150,362	62,257	212,619
2027	178,899	47,973	226,872
2028-2029	449,524	42,625	492,149
	<u>\$ 1,081,891</u>	<u>\$ 402,479</u>	<u>\$ 1,484,370</u>

On May 24, 2016, the Academy entered into a long-term lease agreement for its operating facility which commenced on September 1, 2016 and continues for a period of twelve years and ten months, expiring on June 30, 2029.

NOTE 6—RISK MANAGEMENT

The Academy 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, 2022, the Academy purchased commercial insurance to manage risks related to property and liability and worker’s compensation claims.

NOTE 7—SIGNIFICANT CONCENTRATION OF REVENUE RISK

As a public charter school, the Academy annually receives adequacy and differentiated 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 and differentiated aid funding received for the year ended June 30, 2022 was \$852,787 which is approximately 70% of total Governmental Activities and General Fund revenues.

ARTS ACADEMY OF NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2022

NOTE 8—CONTINGENCIES

Litigation

In the opinion of Academy management, any potential claims against the Academy, which are not covered by insurance or included as a liability in these financial statements are immaterial and would not affect the financial position of the Academy.

NOTE 9—CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2022, the Academy implemented GASB Statement No. 87, *Lease*. Under Statement No. 87, the Academy is required to record a lease liability and an intangible right to use asset for its leasing arrangements as a lessee. The Academy recognized a lease liability of \$1,153,266 as of July 1, 2021, due to implementation of GASB Statement No. 87. However, this entire amount was offset by recognition of an intangible right to use asset for the related lease.