

GRANITE STATE ARTS ACADEMY

Financial Statements

June 30, 2015

and

Independent Auditor's Report

**GRANITE STATE ARTS ACADEMY
FINANCIAL STATEMENTS
June 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Granite State Arts Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Granite State Arts Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Granite State Arts Academy'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 Granite State Arts Academy, as of June 30, 2015, 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.

Vachon Clukey & Company PC

Manchester, New Hampshire
April 12, 2016

**GRANITE STATE ARTS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2015**

Presented herewith, please find the Management Discussion and Analysis Report for the Granite State Arts Academy (the Academy) for the fiscal year ending June 30, 2015. 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 Granite State Arts Academy using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the Granite State Arts Academy'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.

**GRANITE STATE ARTS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2015**

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.

The Academy adopts an annual appropriation budget for its General Fund. A budgetary comparison has been provided for the General Fund to demonstrate compliance with 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 Granite State Arts Academy as of June 30, 2015 is as follows:

	<u>2015</u>
Capital and Other Assets:	
Capital assets, net	\$ 72,310
Other assets	<u>53,624</u>
Total Assets	<u>125,934</u>
Deferred Outflows of Resources:	
Total Deferred Outflows of Resources	<u>-</u>

**GRANITE STATE ARTS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2015**

Long-term and Other Liabilities:	
Long-term liabilities	165,402
Other liabilities	56,318
Total Liabilities	<u>221,720</u>
Deferred Inflows of Resources:	
Total Deferred Inflows of Resources	<u>-</u>
Net Position:	
Net investment in capital assets	72,310
Unrestricted (Deficit)	<u>(168,096)</u>
Total Net Position	<u>\$ (95,786)</u>

Statement of Activities

The change in net position for the fiscal year ending June 30, 2015 is as follows:

	<u>2015</u>
Program revenues:	
Charges for services	\$ 8,992
Operating grants and contributions	174,910
Total program revenues	<u>183,902</u>
General revenues:	
State adequacy education grant	301,032
Miscellaneous	95,061
Total general revenues	<u>396,093</u>
Total revenues	<u>579,995</u>
Program expenses:	
Instruction	294,916
General administration	187,162
Operation and maintenance of plant	239,981
Food service	5,866
Total program expenses	<u>727,925</u>
Change in net position	(147,930)
Net position - beginning of year	52,144
Net position - ending of year	<u>\$ (95,786)</u>

COMPARATIVE ANALYSIS

A comparative analysis will be provided in future years when prior year information is available.

GRANITE STATE ARTS ACADEMY ACTIVITIES

As shown in the above statement the Academy experienced a decrease in net position of (\$147,930) on the full accrual basis of accounting.

**GRANITE STATE ARTS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2015**

The General Fund ended the fiscal year with a total deficit fund balance of (\$2,694).

GENERAL FUND BUDGETARY HIGHLIGHTS

There was no difference between the original and final budgets for the General Fund in the current fiscal year. Actual revenues on the budgetary basis were less than the budgeted amount by (\$37,436). This was primarily a result of current year school enrollment being low. The Academy's primary funding source is State Adequacy Funding, which is based upon student enrollment. Actual appropriations were more than budgeted amounts by (\$23,757). The over expenditure of budgeted appropriations was primarily a result of rent expenditure and related charges for the Academy's primary operating facility. The Academy has since agreed to an amended lease agreement, which is more favorable to the Academy and will provide for decreased expenditures and better cash flows in the subsequent year. See Schedule 1 on page 13 for additional information regarding budgetary activity.

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 several additions as well as depreciation on existing assets. See Note 4 in the notes to the basic financial statements for additional information on the capital assets activity.

LONG-TERM LIABILITIES

Operating Lease Payable

The Academy has entered into a long-term agreement to lease its operating facility. For financial reporting purposes the Academy recognizes rent expense for governmental activities using the straight-line basis. The difference between the recognition of rental expense on the straight-line basis reported in the government-wide financial statements and the actual payments made as reported in the governmental fund statements, resulted in a noncurrent liability that is reported in the governmental activities. As of June 30, 2015, the balance of the resulting noncurrent liability was \$165,402. See Notes 6 in the notes to the basic financial statements for additional information.

ECONOMIC FACTORS

The fiscal year ending June 30, 2015 represented the first year of the Academy's charter school operations. There were many challenges facing the Academy in its first year, as like all other public Charter schools in the State of New Hampshire, the Academy receives a set, per student amount of funding from the State (State Adequacy Education Equitable Aid), which is about half the amount that traditional public schools receive. Typical schools receive approximately \$13,000 per student while Chartered Schools receive only \$5,498 per student. In fiscal year 2016 (school year 2015-16) the Academy has seen an increase in enrollment of \$36 per student and will see a further per student increase of \$1,000 per student when the 2016-17 school year begins in the fall for a total per student amount of \$6,534. Staff salaries were also adjusted downward for the 2015-16 school year to reduce outlays in that area after assessments by the Academy of other Charter salary levels.

**GRANITE STATE ARTS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2015**

CONTACTING GRANITE STATE ARTS ACADEMY

This financial report is intended to provide a general overview of the Granite State Art Academy's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, contact Granite State Arts Academy, 16 NH Route 111, Building 4, Derry, New Hampshire 03038 or by telephone at (603) 912-4944. The school is planning to move for the upcoming school year at some point in the summer of 2016 by a date TBD. The Academy expects the phone number to remain that same after the move to maintain continuity.

EXHIBIT A
GRANITE STATE ARTS ACADEMY
Statement of Net Position
June 30, 2015

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 16,804
Due from State of New Hampshire	5,861
Deposits held by others	30,750
Inventory	209
Total Current Assets	<u>53,624</u>
Noncurrent Assets:	
Capital assets:	
Depreciable capital assets, net	<u>72,310</u>
Total Noncurrent Assets	<u>72,310</u>
Total Assets	<u>125,934</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	35,837
Accrued expenses	7,481
Related party loans payable	13,000
Total Current Liabilities	<u>56,318</u>
Noncurrent liabilities:	
Operating lease payable	<u>165,402</u>
Total Noncurrent Liabilities	<u>165,402</u>
Total Liabilities	<u>221,720</u>
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	<u>-</u>
NET POSITION	
Net investment in capital assets	72,310
Unrestricted (Deficit)	<u>(168,096)</u>
Total Net Position	<u>\$ (95,786)</u>

See accompanying notes to the basic financial statements

EXHIBIT B
GRANITE STATE ARTS ACADEMY
Statement of Activities
For the Year Ended June 30, 2015

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>
		<u>Services</u>	<u>Grants and</u>	<u>in Net Position</u>
			<u>Contributions</u>	<u>Governmental</u>
				<u>Activities</u>
Governmental Activities:				
Instruction	\$ 294,916	\$ 5,021	\$ 174,910	\$ (114,985)
General administration	187,162			(187,162)
Operation and maintenance of plant	239,981			(239,981)
Food service	<u>5,866</u>	<u>3,971</u>		<u>(1,895)</u>
Total governmental activities	<u>\$ 727,925</u>	<u>\$ 8,992</u>	<u>\$ 174,910</u>	<u>(544,023)</u>
General revenues:				
State adequacy education grant				301,032
Miscellaneous				<u>95,061</u>
Total general revenues				<u>396,093</u>
Change in net position				(147,930)
Net Position - beginning				<u>52,144</u>
Net Position - ending				<u>\$ (95,786)</u>

See accompanying notes to the basic financial statements

EXHIBIT C
GRANITE STATE ARTS ACADEMY
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 16,804	\$ 16,804
Due from State of New Hampshire	5,861	5,861
Deposits held by others	30,750	30,750
Inventory	209	209
Total Assets	<u>53,624</u>	<u>53,624</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 53,624</u>	<u>\$ 53,624</u>
LIABILITIES		
Accounts payable	\$ 35,837	\$ 35,837
Accrued expenses	7,481	7,481
Related party loans payable	13,000	13,000
Total Liabilities	<u>56,318</u>	<u>56,318</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>
FUND BALANCES		
<i>Nonspendable:</i>		
Deposits held by others	30,750	30,750
<i>Unassigned:</i>		
Unassigned - General operations	<u>(33,444)</u>	<u>(33,444)</u>
Total Fund Balances (Deficit)	<u>(2,694)</u>	<u>(2,694)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 53,624</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		72,310
Operating leases with scheduled rent increases that contain payments in a year or years that are artificially low, are recognized on the straight-line basis over the life of the lease on the accrual basis, not as payments are made		<u>(165,402)</u>
Net Position of Governmental Activities		<u>\$ (95,786)</u>

See accompanying notes to the basic financial statements

EXHIBIT D

GRANITE STATE ARTS ACADEMY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General Fund	Total Governmental Funds
Revenues:		
Intergovernmental	\$ 475,942	\$ 475,942
Charges for services	8,992	8,992
Miscellaneous	<u>95,061</u>	<u>95,061</u>
Total Revenues	<u>579,995</u>	<u>579,995</u>
Expenditures:		
Current operations:		
Instruction	300,897	300,897
General administration	195,930	195,930
Operation and maintenance of plant	115,730	115,730
Food service	<u>5,866</u>	<u>5,866</u>
Total Expenditures	<u>618,423</u>	<u>618,423</u>
Net change in fund balances	(38,428)	(38,428)
Fund balances at beginning of year	<u>35,734</u>	<u>35,734</u>
Fund balances (Deficit) at end of year	<u>\$ (2,694)</u>	<u>\$ (2,694)</u>

GRANITE STATE ARTS ACADEMY

**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, 2015

Net Change in Fund Balances--Total Governmental Funds	\$ (38,428)
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.	(3,401)
Governmental funds report operating leases with scheduled rent increases containing payments in a year or years that are artificially low, as expenditures when payments are made. However, in the statement of activities, the rental payments must be recognized on a straight-line basis over the life of the lease. This is the amount by which the straight-line basis expenses exceeded scheduled rent payments in the current period.	<u>(106,101)</u>
Change in Net Position of Governmental Activities	<u>\$ (147,930)</u>

See accompanying notes to the basic financial statements

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Granite State Arts Academy conform to accounting principles generally accepted in the United States of America for local educational units of government, except as indicated hereinafter. The Granite State Arts Academy 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 Granite State Arts Academy's basis of presentation follows the governmental reporting model. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Granite State Arts Academy (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.

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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.

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, the recording of unearned 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.

2. Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as advances for grantors.

3. 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.

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Due from State of New Hampshire

Receivables due from the State of New Hampshire at June 30, 2015 consists solely of a receivable from the Department of Education for the final fiscal year 2015 Adequacy Aid Funding distribution.

Deposits held by Others

Deposits held by others at June 30, 2015 consists of a security deposit paid to the Academy's landlord in accordance with the lease agreement in the amount of \$30,000 and a legal retainer paid to the Academy's general counsel in the amount of \$750.

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 fair values 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
	Furniture and Fixtures	5-7
	Leasehold improvements	2

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.

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

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

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, 2015, the Academy has not adopted a formal fund balance policy. Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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.

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.

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

NOTE 2—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, 2015, the Academy purchased commercial insurance to manage risks related to property and liability and worker’s compensation claims.

NOTE 3—DEPOSITS

Deposits as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	<u>\$ 16,804</u>

Deposits at June 30, 2015 consist of the following:

Deposits with financial institutions	<u>\$ 16,804</u>
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As of June 30, 2015, 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; however, the Academy’s entire balance of deposits with financial institutions at year end was covered by federal depository insurance.

NOTE 4—CAPITAL ASSETS

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

Capital assets:				
Equipment	\$ 29,400	\$ 22,638		\$ 52,038
Furniture and fixtures	10,011	3,219		13,230
Leasehold improvements	<u>36,300</u>			<u>36,300</u>
Total capital assets at historical cost	<u>75,711</u>	<u>25,857</u>	<u>\$ -</u>	<u>101,568</u>
Less accumulated depreciation for:				
Equipment	-	(9,205)		(9,205)
Furniture and fixtures	-	(1,903)		(1,903)
Leasehold improvements	<u>-</u>	<u>(18,150)</u>		<u>(18,150)</u>
Total accumulated depreciation	<u>-</u>	<u>(29,258)</u>	<u>-</u>	<u>(29,258)</u>
Total capital assets, net	<u>\$ 75,711</u>	<u>\$ (3,401)</u>	<u>\$ -</u>	<u>\$ 72,310</u>

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 7,708
General administration	3,400
Operation and maintenance of plant	<u>18,150</u>
	<u>\$ 29,258</u>

NOTE 5— RELATED PARTY LOANS PAYABLE

Related Party Short-Term Loans

During March 2014, a Member of the Board of Trustees personally loaned the Academy \$10,000 to assist with cash flows for general operations. The loan was made unsecured, with no interest rate or fixed repayment schedule, except for the loan is required to be fully repaid or extended within one year. In February 2015, \$2,000 of the loan balance was forgiven in the form of a donation to the Academy and the remaining loan balance term was extended for an additional year. During May 2015, the same Member of the Board of Trustees personally loaned the Academy an additional \$5,000 to assist with cash flows for general operations. The additional loan was made under the same terms as the original loan, which requires the balance to be fully repaid or reaffirmed within one year of the loan being made. As of June 30, 2015, the total balance of related party loans outstanding was \$13,000 and has been included as a short-term obligation as the terms require each loan to be fully repaid or extended within a year.

Changes in the Academy’s short-term obligations for the year ended June 30, 2015 are as follows:

Balance - July 1, 2014	\$ 10,000
Additions	5,000
Reductions	<u>(2,000)</u>
Balance - June 30, 2015	<u>\$ 13,000</u>

NOTE 6—OPERATING LEASE PAYABLE

In December 2013, the Academy entered into a long-term agreement to lease its operating facility, which was amended in November 2014, and amended again in February 2015. The terms of the amended lease agreement include 6 months of free rent, 14 months of reduced rent at 10% of the initial monthly base rent fee and scheduled increases to the monthly base rent fee on an annual basis in a systematic manner over the life of the remaining term expiring on June 30, 2024. In accordance with GASB Statement 13, the Academy recognizes rent expense for governmental activities using the straight-line basis for reporting purposes on the government-wide financial statements. On the modified accrual basis financial statements in the governmental funds, the Academy recognizes rent expense each period as payments come due. The difference between the recognition of rental expense on the straight-line basis reported in the government-wide financial statements and the actual payments made as reported in the governmental fund statements, resulted in a noncurrent liability that is reported in the governmental activities and is included on the Statement of Net Position. As of June 30, 2015, the balance of the resulting noncurrent liability reported as ‘Operating lease payable’ was \$165,402.

GRANITE STATE ARTS ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2015

NOTE 7—LEASE COMMITMENTS

Rental Agreement

During December 2013, the Academy entered into a long-term lease agreement for its operating facility (Academy campus), which expires on June 30, 2020. The lease agreement was subsequently amended in November 2014, and again during February 2015, with an extended expiration date of June 30, 2024. Total monthly rental payments under the terms of the lease agreement for the year ended June 30, 2015 were \$12,500. Future minimum payments under the amended lease agreement will be at an initial base rate of \$10.00 per square foot, as of September 2015, and increase by \$0.25 per square foot per year as of each January 1st. Future minimum annual commitments for rental payments at June 30, 2015 are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2016	\$ 107,813
2017	129,687
2018	132,813
2019	135,938
2020	139,062
2021-2024	587,500
	<u>\$ 1,232,813</u>

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.

Federal Grants

The Academy participates in federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 9—SUBSEQUENT EVENTS

Subsequent to year end, the Academy renegotiated its lease terms for its operating facility and has agreed to an additional amendment with the landlord. Terms of the lease under the new amendment extend the lease agreement through June 30, 2029, with base rent to be discounted to 10% of the initial base rate of \$10.00 per square foot through August 31, 2016. Additionally, terms of the new amendment allow for \$31,522 in back rent and charges owed by the Academy to be paid back over 72 months at an interest rate of 6%, payable on the 1st of each month, commencing September 2015.

SCHEDULE 1
GRANITE STATE ARTS ACADEMY
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 574,716	\$ 574,716	\$ 475,942	\$ (98,774)
Charges for services	16,300	16,300	8,992	(7,308)
Miscellaneous	26,415	26,415	95,061	68,646
Total Revenues	<u>617,431</u>	<u>617,431</u>	<u>579,995</u>	<u>(37,436)</u>
Expenditures:				
Current operations:				
Instruction	277,079	277,079	300,897	(23,818)
General administration	167,632	167,632	195,930	(28,298)
Operation and maintenance of plant	149,955	149,955	115,730	34,225
Food service	-	-	5,866	(5,866)
Total Expenditures	<u>594,666</u>	<u>594,666</u>	<u>618,423</u>	<u>(23,757)</u>
Net change in fund balance	22,765	22,765	(38,428)	(61,193)
Fund balance at beginning of year				
- Budgetary Basis	<u>35,734</u>	<u>35,734</u>	<u>35,734</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 58,499</u>	<u>\$ 58,499</u>	<u>\$ (2,694)</u>	<u>\$ (61,193)</u>

See accompanying notes to the required supplementary information

GRANITE STATE ARTS ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

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 Academy. 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, 2015.

NOTE 2—STEWARDSHIP AND ACCOUNTABILITY

Overdraft of Appropriations

The Academy overdrafted its budgeted appropriations in the General Fund for the fiscal year ended June 30, 2015 by \$23,757.