

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2010

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Avondale Education Association, Inc.
d/b/a The Museum School of Avondale Estates:

We have audited the accompanying statement of financial position of the Avondale Education Association, Inc. d/b/a The Museum School of Avondale Estates (the School), as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Avondale Education Association, Inc. d/b/a The Museum School of Avondale Estates as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Brooks, McGinnis & Company, LLC

Atlanta, Georgia
December 14, 2010

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

Cash and cash equivalents	\$ 46,880
Prepaid expenses	4,638
Deposit	21,500
Construction in progress	<u>170,292</u>
 Total assets	 <u>\$ 243,310</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Construction payable	\$ <u>134,446</u>
Total liabilities	<u>134,446</u>
 Commitments and contingencies	
 Net assets:	
Unrestricted net assets	<u>108,864</u>
Total net assets	<u>108,864</u>
 Total liabilities and net assets	 <u>\$ 243,310</u>

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

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Changes in unrestricted net assets:	
Support and revenue	
Contributions	\$ 165,418
Donated services	34,164
Fundraising activities	24,670
Total unrestricted support and revenue	<u>224,252</u>
Expenses:	
Educational program	40,346
Total program expenses	<u>40,346</u>
General and administrative	73,011
Fundraising	3,923
Total expenses	<u>117,280</u>
Increase in unrestricted net assets	106,972
Increase in net assets	106,972
Net assets at beginning of year	<u>1,892</u>
Net assets at end of year	<u>\$ 108,864</u>

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

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Educational Program	Total Program	General and Administrative	Fund- raising	Total
Contract labor	\$ 23,644	\$ 23,644	\$ 29,390	\$	\$ 53,034
Recruiting	1,813	1,813			1,813
Continuing education	1,114	1,114	1,130		2,244
Total personnel	<u>26,571</u>	<u>26,571</u>	<u>30,520</u>	-	<u>57,091</u>
Student recruiting	2,768	2,768			2,768
Supplies and office expense			529		529
Insurance			1,200		1,200
Postage	1,052	1,052	315	471	1,838
Printing	5,373	5,373	705	543	6,621
Bank fees			2,829		2,829
Dues and subscriptions	1,570	1,570			1,570
Website	1,832	1,832		459	2,291
Rent	880	880	165	55	1,100
Building and equipment maintenance	300	300	400		700
Fundraising				2,395	2,395
Legal fees- in kind			35,814		35,814
Other			534		534
Total expenses	<u>\$ 40,346</u>	<u>\$ 40,346</u>	<u>\$ 73,011</u>	<u>\$ 3,923</u>	<u>\$ 117,280</u>

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

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Cash flows from operating activities:	
Increase in net assets	\$ <u>106,972</u>
Adjustments to reconcile increase in net assets to net cash provided by operations:	
Change in assets and liabilities:	
(Increase) decrease in:	
Deposit	(21,500)
Prepaid expenses	<u>(4,638)</u>
Total adjustments	<u>(26,138)</u>
Net cash provided by operating activities	<u>80,834</u>
Cash flows from investing activities:	
Acquisition of property and equipment	<u>(170,292)</u>
Net cash used in investing activities	<u>(170,292)</u>
Cash flows from financing activities:	
Increase in construction payable	<u>134,446</u>
Net cash provided by financing activities	<u>134,446</u>
Net increase in cash and cash equivalents	44,988
Cash and cash equivalents, beginning of year	<u>1,892</u>
Cash and cash equivalents, end of year	\$ <u><u>46,880</u></u>

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

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. Nature of Organization and Significant Accounting Policies

Organization

The Avondale Education Association, Inc. (the “AEA”), incorporated in June 2004, was initially formed by a group of parents to study and implement different options to improve the quality of public education in the local community. Through the end of 2007, the AEA focused its efforts on involvement and support at the area’s local elementary school. In 2008, however, the State of Georgia passed a new law which created an independent charter school commission as an alternative authorizer to the local school boards. With support of the local community, the AEA changed its focus from supporting the local public school to organizing, applying and acquiring approval through the State of Georgia* to become a state-chartered commission school. The application was approved December 2009 for the School to serve kindergarten through eighth grade with a projected opening date of August 2010.

The AEA selected the museum concept as the instructional model for the School. This proven school model provides project-based learning through partnerships with museums and other learning institutions to create a curriculum aligned with Georgia Performance Standards. The museum school model is based on the idea that children learn best through personal exploration and hands-on experience. Interactive learning expeditions to partner sites offer students a chance to ask questions, make observations, reflect on experiences and draw their own conclusions. Students examine the lesson themes from all angles and create museum-style exhibits to demonstrate what they have learned. Four times a year, they share these projects and their knowledge with parents and other community members at Exhibit Night. The AEA does business as “The Museum School of Avondale Estates” (the School) and for the 2010-2011 academic year, the School serves students in kindergarten through third grade.

**The Georgia Charter Schools Commission is a state-level, independent charter school authorizing entity, which has the power to approve or deny petitions for commission charter schools and renew, non-renew, or terminate commission charter school petitions in accordance with Georgia law.*

Basis of Accounting and Presentation

The School prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. Nature of Organization and Significant Accounting Policies - Continued

Basis of Accounting and Presentation - Continued

To ensure observation of limitations and restrictions placed on the use of resources available to the School, resources are classified for accounting and financial reporting purposes into three categories established according to their nature and purposes. The assets, liabilities and net assets of the School are reported in three categories as follows:

- Unrestricted net assets are resources that are neither permanently nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are those resulting of the nature of the School and its purposes.
- Temporarily restricted net assets are resources whose use by the School is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the School.
- Permanently restricted net assets are those whose use by the School is limited by donor-imposed stipulations requiring that the corpus be maintained in perpetuity. The School does not currently have any permanently restricted net assets.

Revenue Recognition

Special events revenue is recognized in the period in which the event is held.

Contributions (including unconditional promises to give i.e. pledges or private grants) are recognized as revenue in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Unconditional pledges or private grants that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges or private grants that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts (if any) is included in contributions in the accompanying statements of activities and changes in net assets. Conditional pledges or private grants are not included as support until the conditions are substantially met.

The School recognizes contributions as restricted support if they are received with donor imposed restrictions that limit the use of the donated assets. When a donor-imposed restriction is met or the passage of time expires, temporarily restricted net assets are reclassified to unrestricted net assets and presented in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. Nature of Organization and Significant Accounting Policies - Continued

Revenue Recognition - Continued

Marketable securities acquired by gift are recorded at fair market value on the date of the receipt. Donated services received that either create or enhance non-financial assets or require specialized skills, which would need to be purchased if not donated are recorded as contributions with a corresponding expense. During the year the School received donated legal services with a value of \$34,164. This amount is reflected in the School's financial statements at June 30, 2010.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Estimates

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

Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and accordingly pays no income taxes. In accordance with FASB ASC the School believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements

Concentration of Credit Risk

The School maintains a majority of its cash balances at one financial institution. The account balance (as reflected in the institution's records) is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The September 2008 increase in federally insured limits from \$100,000 to \$250,000 is effective through December 31, 2013. At June 30, 2010 there were no uninsured balances outstanding.

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. Nature of Organization and Significant Accounting Policies - Continued

Cash and Cash Equivalents

The School considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Property and Equipment

It is the policy of the School to capitalize expenditures for property and equipment in excess of \$5,000. Depreciation of leasehold improvements, furniture and equipment is provided over the estimated useful lives on the respective assets or the duration of the lease on a straight-line basis as follows:

Leasehold improvements	3 – 4 years
Furniture and fixtures	5 – 7 years
Equipment and software	3 - 4 years

Fair Value of Financial Instruments

The financial instruments shown as assets and liabilities in the statements of financial position are traditional in nature. In accordance with the Fair Value Measurements and Disclosures Topic of FASB ASC, the carrying value of cash and cash equivalents and all other financial instruments, including prepaid expenses, deposits and construction payables are carried at amounts which approximate fair value due to the short-term nature of these instruments.

Subsequent Events

Management has reviewed, through December 14, 2010, (the date which these financial statements were available to be issued), events occurring subsequent to June 30, 2010, in order to evaluate their impact on these financial statements. In accordance with GAAP, there are two types of subsequent events:

Recognized subsequent events – These are events or transactions that provide evidence about conditions that existed at the date of the statements of financial position, including estimates inherent in the process of preparing financial statements. All such evidence known to management through the date that these financial statements were available to be issued has been factored into the preparation of these financial statements.

Non-recognized subsequent events – These are events or transactions that did not exist at the date of the balance sheet but arose subsequent to that date, and thus are not recognized in the balance presented in these financial statements. These events may be disclosed, however, in order to inform the users of the financial statements.

AVONDALE EDUCATION ASSOCIATION, INC.
d/b/a THE MUSEUM SCHOOL OF AVONDALE ESTATES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. Property and Equipment, Net

During the year, the School began planning and construction on the site to be used to house a modular building which will be used as the school building. This building will be located on land leased from a Church which is discussed further in Note 5. The total estimated cost of this project is approximately \$400,000. At June 30, 2010, construction in progress totaled \$170,292. There was no depreciation expense for the year ending June 30, 2010.

3. Line of Credit

The School established a line of credit agreement on June 28, 2010 that provides for maximum borrowings of \$300,000. Borrowings under the line of credit bear interest at the bank's prime rate plus one percent. The line of credit expires June 28, 2011. The line of credit is secured by \$350,000 in personal guarantees. There were no borrowings outstanding under the line of credit at June 30, 2010.

4. Grant Award

On May 11, 2010, the State Board of Education awarded the School \$400,000 in Federal Grant Funds for the initial implementation of the educational program. As this is a reimbursement grant, funds will be received as project goals are met.

5. Operating Lease

As described in Note 2, the School negotiated a land lease with a local church to allow the School to construct its' modular building on the Church's campus. The lease arrangement with the Church gives the School some access to the Church's kitchen facility which is needed for the academic program. Future minimum lease payments required under this operating lease are as follows:

<u>For the year ending June 30,</u>		
2011	\$	18,000
2012		24,000
2013		<u>30,000</u>
Total future minimum lease payments	\$	<u><u>72,000</u></u>

Rental expense for all operating leases was \$1,100 for the year ending June 30, 2010.

AVONDALE EDUCATION ASSOCIATION, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6. Related Party Transactions

The bank issuing the line of credit to the School required that the line be secured with personal guarantees in the amount of \$350,000. Six members of the School's Board of Directors plus one committee member provided personal guarantees in various amounts that satisfy the bank's lending criteria.

Additionally, the company leasing the modular building required the School to have the leasing company indemnified up to \$119,167 in unpaid rent through personal guarantees. Two members of the Board of Directors' provided the personal guaranty needed under the term of the modular building lease.

7. Subsequent Events

On August 9, 2010, The Museum School began classes for kindergarten through third grade with 136 students. Fifteen salary contracts were issued for the 2010-2011 academic year specifically for the head of school, seven teachers, five assistant teachers, business manager and one museum liaison. The total salary expense associated with these contracts totaled \$471,830.

At December 14, 2010, the School had taken two (2) draws on its line of credit so that the outstanding balance was \$216,780.

On April 30, 2010, the School signed an agreement to lease a modular building which will be used as a School building but the lease did not become effective until August 16, 2010. The 36 month lease called for monthly lease payments of \$7,000 per month. Future minimum lease payments on the leased building are as follows:

<u>For the year ending June 30,</u>	
2011	\$ 77,000
2012	84,000
2013	<u>84,000</u>
Total future minimum lease payments	<u>\$ 245,000</u>

Finally, on July 1, 2010, the School entered into a Rent and Insurance set aside agreement with the two members of the Board of Directors that personally guaranteed the modular building lease. The agreement calls for a separate bank account to be established where \$16,000 in funding will be set aside by the School in the event there is an outstanding rent or insurance obligation that cannot be satisfied from any other funding source.