

Center School, Inc.
Minneapolis, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2015 and 2014

Carpenter *Evert*
Certified Public Accountants



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Carpenter *Evert*

Independent Auditor's Report

Board of Directors
Center School, Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Center School, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Center School, Inc. as of June 30, 2015 and 2014, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carpenter, Evert & Associates, Ltd.
Certified Public Accountants

Minneapolis, Minnesota
January 27, 2016

CENTER SCHOOL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015		2014		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
Support and Revenue:					
Contributions	\$ 42,857	\$ 142,500	\$ 185,357	\$ 62,500	\$ 98,278
United Way	-	95,044	95,044	130,575	130,575
Government Grants	305,409	-	305,409	-	320,258
Lunch Program	22,232	-	22,232	-	19,280
Program Service Fees	521,713	-	521,713	-	441,096
Miscellaneous	167	-	167	-	1,516
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	195,544	(195,544)	-	(60,500)	-
Satisfaction of Time Restrictions	-	-	-	(130,575)	-
Satisfaction of Capital Restrictions	25,000	(25,000)	-	(6,722)	-
Total Support and Revenue	1,112,922	17,000	1,129,922	(4,722)	1,011,003
Expense:					
Program Services	853,966	-	853,966	-	841,019
Support Services:					
Management and General	118,935	-	118,935	-	117,300
Fundraising	106,196	-	106,196	-	79,178
Total Support Services	225,131	-	225,131	-	196,478
Total Expense	1,079,097	-	1,079,097	-	1,037,497
Change in Net Assets	33,825	17,000	50,825	(4,722)	(26,494)
Net Assets - Beginning of Year	59,574	37,500	97,074	42,222	123,568
Net Assets - End of Year	\$ 93,399	\$ 54,500	\$ 147,899	\$ 37,500	\$ 97,074

The accompanying Notes to Financial Statements are an integral part of these statements.

CENTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2015 WITH COMPARATIVE TOTALS FOR 2014

	2015				2014	
	Total Program Services	Management & General	Fund- raising	Total Support Services	Total All Services	Total All Services
Salaries	\$ 416,031	\$ 53,819	\$ 29,471	\$ 83,290	\$ 499,321	\$ 503,892
Employee Benefits	70,718	9,148	5,010	14,158	84,876	86,725
Payroll Taxes	42,470	5,494	3,009	8,503	50,973	31,965
Total Personnel Costs	529,219	68,461	37,490	105,951	635,170	622,582
Contract Services	150,147	21,696	59,110	80,806	230,953	223,825
Equipment Lease and Maintenance	23,142	2,994	1,639	4,633	27,775	12,733
Lunches	22,698	-	-	-	22,698	19,968
Occupancy	16,255	2,103	1,151	3,254	19,509	14,003
Insurance	15,391	1,991	1,090	3,081	18,472	17,730
Telephone	13,331	1,724	944	2,668	15,999	7,759
Miscellaneous	11,750	1,520	832	2,352	14,102	11,055
Staff Mileage & Travel	11,470	1,484	812	2,296	13,766	3,254
Student Activities	12,968	-	-	-	12,968	13,935
Supplies	6,209	3,104	1,035	4,139	10,348	9,683
Professional Fees	-	10,040	-	10,040	10,040	11,810
Dues and Memberships	5,820	-	-	-	5,820	7,061
Curriculum	5,820	-	-	-	5,820	3,222
Vehicle Expense	4,175	540	296	836	5,011	5,525
Interest Expense	2,902	375	206	581	3,483	2,946
Staff Development	1,788	231	127	358	2,146	4,299
Advertising	1,480	191	105	296	1,776	590
Program Equipment	220	-	-	-	220	20,905
Depreciation	19,181	2,481	1,359	3,840	23,021	24,612
Total Expense	\$ 853,966	\$ 118,935	\$ 106,196	\$ 225,131	\$ 1,079,097	\$ 1,037,497

The accompanying Notes to Financial Statements are an integral part of this statement.

CENTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2014

	Support Services				Total All Services
	Total Program Services	Management & General	Fund- raising	Total Support Services	
Salaries	\$ 418,362	\$ 57,023	\$ 28,507	\$ 85,530	\$ 503,892
Employee Benefits	72,005	9,814	4,906	14,720	86,725
Payroll Taxes	26,540	3,617	1,808	5,425	31,965
Total Personnel Costs	516,907	70,454	35,221	105,675	622,582
Contract Services	166,444	20,305	37,076	57,381	223,825
Equipment Lease and Maintenance	10,572	1,441	720	2,161	12,733
Lunches	19,968	-	-	-	19,968
Occupancy	11,626	1,585	792	2,377	14,003
Insurance	14,721	2,006	1,003	3,009	17,730
Telephone	6,442	878	439	1,317	7,759
Miscellaneous	9,178	1,251	626	1,877	11,055
Staff Mileage & Travel	2,702	368	184	552	3,254
Student Activities	13,935	-	-	-	13,935
Supplies	5,810	2,905	968	3,873	9,683
Professional Fees	-	11,810	-	11,810	11,810
Dues and Memberships	7,061	-	-	-	7,061
Curriculum	3,222	-	-	-	3,222
Vehicle Expense	4,587	625	313	938	5,525
Interest Expense	2,446	333	167	500	2,946
Staff Development	3,569	486	244	730	4,299
Advertising	490	67	33	100	590
Program Equipment	20,905	-	-	-	20,905
Depreciation	20,434	2,786	1,392	4,178	24,612
Total Expense	\$ 841,019	\$ 117,300	\$ 79,178	\$ 196,478	\$ 1,037,497

The accompanying Notes to Financial Statements are an integral part of this statement.

CENTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash	\$ 185,289	\$ 93,881
Accounts Receivable	1,341	1,341
Grants Receivable	4,000	-
Prepaid Expenses	9,572	7,919
Other Assets	<u>1,237</u>	<u>12,569</u>
Total Current Assets	201,439	115,710
Property and Equipment - Net	<u>81,779</u>	<u>94,713</u>
TOTAL ASSETS	<u>\$ 283,218</u>	<u>\$ 210,423</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities:		
Accounts Payable	\$ 21,334	\$ 19,413
Notes Payable	36,755	24,081
Funds Held for Others	38,647	30,974
Accrued Salaries and Vacation	<u>24,954</u>	<u>18,228</u>
Total Current Liabilities	121,690	92,696
Long-term Liabilities:		
Notes Payable	<u>13,629</u>	<u>20,653</u>
Total Liabilities	135,319	113,349
Net Assets:		
Unrestricted	93,399	59,574
Temporarily Restricted	<u>54,500</u>	<u>37,500</u>
Total Net Assets	<u>147,899</u>	<u>97,074</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 283,218</u>	<u>\$ 210,423</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

CENTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>Increase (Decrease) in Cash</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 50,825	\$ (26,494)
Total Adjustments	<u>45,020</u>	<u>8,859</u>
Net Cash Provided (Used) by Operating Activities	95,845	(17,635)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(10,088)	(1,667)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Notes Payable	25,000	-
Principal Payments on Notes Payable	<u>(19,349)</u>	<u>(11,891)</u>
Net Cash Provided (Used) by Financing Activities	5,651	(11,891)
Net Increase (Decrease) in Cash	<u>91,408</u>	<u>(31,193)</u>
Cash - Beginning of Year	<u>93,881</u>	<u>125,074</u>
Cash - End of Year	<u>\$ 185,289</u>	<u>\$ 93,881</u>
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for Interest	<u>\$ 3,483</u>	<u>\$ 2,946</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

CENTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies

Organizational Purpose

Center School's (the Organization) purpose is to provide transformative education, grounded in indigenous language and life-ways, nature and love of learning.

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restrictions. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment are reported as unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of the Organization resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations.

Accounts Receivable and Doubtful Accounts

The Organization extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances. The Organization reviews accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. No allowance for doubtful accounts has been provided as accounts receivable are considered collectable.

Property and Equipment

All major expenditures over \$500 for property and equipment are capitalized at cost. Contributed equipment is recorded at fair market value at date of donation. Depreciation is provided through the use of the straight-line method.

CENTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies (continued)

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled, and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions.

Promises-To-Give (Grants Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as refundable advances. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made. The Organization's contract year and fiscal year do not coincide. As such, the revenue recorded can vary from a given contract award based on the rate expenditures are incurred.

Functional Allocation of Expense

Salaries and related expenses are allocated on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service are allocated based on the best estimates of management.

Use of 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CENTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. Summary of Significant Accounting Policies (continued)

Income Tax

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. The Organization's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. The Organization continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, the Organization annually files a Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending June 30, 2012 and later remain subject to examination by the Internal Revenue Service.

Reclassifications

Certain amounts in prior year comparative totals have been reclassified to conform to the presentation in the current year financial statements.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through January 27, 2016, which is the date financial statements were available to be issued.

2. Significant Concentrations of Credit Risk

The Organization provides services within the Twin Cities area. Grants and accounts receivable are from local institutions.

3. Correction of an Accounting Error

A renewable grant was not properly recorded prior to the year ended June 30, 2014. The restatement in the year ended June 30, 2014 is as follows:

	<u>As Previously Reported</u>	<u>Net Change</u>	<u>As Restated</u>
Grants Receivable	\$ 65,000	\$ (65,000)	\$ -
Net Assets – Beginning of Year	188,568	(65,000)	123,568

CENTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

4. Major Sources of Support and Revenue

Major sources of support and revenue were as follows as of:

	June 30,	
	2015	2014
Minneapolis Public Schools	\$ 558,896	\$ 460,376
Department of Health and Human Services	283,576	272,030
	\$ 842,472	\$ 732,406

5. Property and Equipment

The Organization owned the following as of:

	June 30,		Estimated Useful Lives
	2015	2014	
Land	\$ 16,500	\$ 16,500	
Building and Building Improvements	514,739	514,739	5-20 years
Furniture and Equipment	262,262	253,306	5 years
Vehicles	72,061	72,061	3 years
Software	4,387	3,256	3 years
	869,949	859,862	
Less Accumulated Depreciation	788,170	765,149	
	\$ 81,779	\$ 94,713	

Depreciation expense of \$23,021 and \$24,612 was recorded for the years ended June 30, 2015 and 2014, respectively.

6. Notes Payable

	June 30,	
	2015	2014
5.46% note payable due to Woodlands National Bank. Payable in monthly amounts of \$659 with the last payment due April 2018. Secured by vehicle.	\$ 20,629	\$ 27,234
Less Portion Due Within One (1) Year	7,000	6,581
Long-term portion	\$ 13,629	\$ 20,653

Principal payments required are as follows:

<u>Due in the Year Ending June 30,</u>	
2016	\$ 7,000
2017	7,340
2018	6,289
Total	\$ 20,629

CENTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

6. Notes Payable (continued)

The Organization maintains a \$50,000 variable interest rate line-of-credit with Woodlands National Bank, due on demand which expires on August 26, 2018. The line-of-credit was renewed on August 26, 2015. Interest payments are due monthly with the remaining balance due August 26, 2018. There was a balance of \$29,755 and \$17,500 as of June 30, 2015 and 2014, respectively. The interest rate at June 30, 2015 was 6%. The line-of-credit is unsecured.

7. Leased Equipment

Rental commitments under noncancelable leases for office equipment in effect at June 30, 2015, total \$11,938. The future annual rental commitments are as follows:

<u>Due in the Year Ending June 30,</u>	
2016	\$ 3,256
2017	3,256
2018	3,256
2019	<u>2,170</u>
Total	<u>\$ 11,938</u>

Rental expense was \$3,781 and \$2,741 for the years ended June 30, 2015 and 2014, respectively.

8. Related Parties

One of the Organization's board members is employed by an entity which provides consulting services to Center School, Inc. Expenses for services provided were \$34,571 and \$25,599 for the years ended June 30, 2015 and 2014, respectively.

9. Pension Plan

The Organization maintains a 403(b) retirement plan. The Organization contributes 3% of eligible employees' salaries. Pension expense amounted to \$3,594 and \$5,148 for the years ended June 30, 2015 and 2014, respectively.

CENTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts from the following as of:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Brighter Future	\$ 40,000	\$ -
General Operations	5,000	-
Healthy Choices	4,000	
Knowledge Warriors Program	3,000	7,500
Young Women's Empowerment	2,500	-
Capital Improvements	-	25,000
Library	-	5,000
	<u>\$ 54,500</u>	<u>\$ 37,500</u>

11. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities were as follows as of:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Depreciation	\$ 23,021	\$ 24,612
Increases (Decreases) in Current Liabilities:		
Accounts Payable	1,921	1,719
Funds Held for Others	7,673	(12,215)
Accrued Salaries and Vacation	6,726	3,326
Other Liabilities	-	(3,249)
Decreases (Increases) in Current Assets:		
Accounts Receivable	-	(1,341)
Grants Receivable	(4,000)	8,000
Prepaid Expenses	(1,653)	576
Other Assets	<u>11,332</u>	<u>(12,569)</u>
Total	<u>\$ 45,020</u>	<u>\$ 8,859</u>