# AVONDALE EDUCATION ASSOCIATION, INC.
# DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
# AND THE MUSEUM SCHOOL FOUNDATION, INC.

## COMBINED FINANCIAL STATEMENTS
## JUNE 30, 2016 AND 2015

AVONDALE EDUCATION ASSOCIATION, INC.
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
AND THE MUSEUM SCHOOL FOUNDATION, INC.

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HA&W

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Avondale Education Association, Inc. dba The Museum School of Avondale Estates
and The Museum School Foundation, Inc.

We have audited the accompanying combined financial statements of Avondale Education Association, Inc. dba The Museum School of Avondale Estates and The Museum School Foundation, Inc., which comprise the combined statement of financial position as of June 30, 2016 and 2015, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Avondale Education Association, Inc. dba The Museum School of Avondale Estates and The Museum School Foundation, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Habif, Arogeti & Wynne, LLP

Atlanta, Georgia

October 18, 2016

AVONDALE EDUCATION ASSOCIATION, INC.
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
AND THE MUSEUM SCHOOL FOUNDATION, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30,

## ASSETS

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | $ 640,190 | $ 701,596 |
| Grants and other receivables | 154,780 | 98,291 |
| Pledges receivable, net | 224,556 | 417,297 |
| Prepaid expenses | 77,694 | 47,486 |
| Deferred in-kind donation | 1,237,167 | 1,477,027 |
| Property and equipment, net | 2,919,438 | 2,283,344 |
| Construction in progress | 579,665 | 757,397 |
| Total assets | $ 5,833,490 | $ 5,782,438 |

## LIABILITIES AND NET ASSETS

| | 2016 | 2015 |
|---|---|---|
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 524,839 | $ 555,564 |
| Deferred grant revenue | 11,270 | - |
| Total liabilities | 536,109 | 555,564 |
| Net assets: | | |
| Unrestricted | 4,060,214 | 3,749,847 |
| Temporarily restricted | 1,237,167 | 1,477,027 |
| Total net assets | 5,297,381 | 5,226,874 |
| Total liabilities and net assets | $ 5,833,490 | $ 5,782,438 |

See auditors' report and accompanying notes

AVONDALE EDUCATION ASSOCIATION, INC.
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
AND THE MUSEUM SCHOOL FOUNDATION, INC.
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues and other support: | | | | |
| QBE revenue | $ 4,350,622 | $ - | $ - | $ 4,350,622 |
| Facility grant | 150,000 | - | - | 150,000 |
| Child nutrition program | 58,718 | - | - | 58,718 |
| Contributions and other grants | 419,004 | - | - | 419,004 |
| Program services | 7,378 | - | - | 7,378 |
| Fundraising activities | 170,861 | - | - | 170,861 |
| Interest income | 21 | - | - | 21 |
| Other | 11,670 | - | - | 11,670 |
| Net assets released from restrictions | 239,860 | (239,860) | - | - |
| Total revenues and other support | 5,408,134 | (239,860) | - | 5,168,274 |
| Expenses: | | | | |
| Program services | 4,579,435 | - | - | 4,579,435 |
| Support services | | | | |
| Management and general | 355,136 | - | - | 355,136 |
| Fundraising | 163,196 | - | - | 163,196 |
| Total expenses | 5,097,767 | - | - | 5,097,767 |
| Changes in net assets | 310,367 | (239,860) | - | 70,507 |
| Net assets, beginning of year | 3,749,847 | 1,477,027 | - | 5,226,874 |
| Net assets, end of year | $ 4,060,214 | $ 1,237,167 | $ - | $ 5,297,381 |

See auditors' report and accompanying notes

AVONDALE EDUCATION ASSOCIATION, INC.
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
AND THE MUSEUM SCHOOL FOUNDATION, INC.
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues and other support: | | | | |
| QBE revenue | $ 3,734,109 | $ - | $ - | $ 3,734,109 |
| Facility grant | 150,000 | - | - | 150,000 |
| Child nutrition program | 52,569 | - | - | 52,569 |
| Contributions and other grants | 741,422 | - | - | 741,422 |
| Program services | 9,966 | - | - | 9,966 |
| Fundraising activities | 163,975 | - | - | 163,975 |
| Interest income | 29 | - | - | 29 |
| Other | 154 | - | - | 154 |
| Net assets released from restrictions | 202,852 | (202,852) | - | - |
| Total revenues and other support | 5,055,076 | (202,852) | - | 4,852,224 |
| Expenses: | | | | |
| Program services | 3,824,574 | - | - | 3,824,574 |
| Support services | | | | |
| Management and general | 336,989 | - | - | 336,989 |
| Fundraising | 143,153 | - | - | 143,153 |
| Total expenses | 4,304,716 | - | - | 4,304,716 |
| Change in net assets | 750,360 | (202,852) | - | 547,508 |
| Net assets, beginning of year | 2,999,487 | 1,679,879 | - | 4,679,366 |
| Net assets, end of year | $ 3,749,847 | $ 1,477,027 | $ - | $ 5,226,874 |

See auditors' report and accompanying notes

AVONDALE EDUCATION ASSOCIATION, INC.
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
AND THE MUSEUM SCHOOL FOUNDATION, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

| | | Support Services | | |
|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total |
| Expenses | | | | |
| Salaries | $ 2,655,251 | $ 181,813 | $ 34,310 | $ 2,871,374 |
| Taxes and benefits | 668,230 | 45,756 | 8,635 | 722,621 |
| Depreciation | 394,513 | 27,014 | 5,098 | 426,625 |
| Supplies | 353,914 | 27,166 | 3,712 | 384,792 |
| Contract labor | 71,384 | 32,465 | 328 | 104,177 |
| Postage and utilities | 71,409 | 4,890 | 923 | 77,222 |
| Food program | 54,976 | - | - | 54,976 |
| Repairs and maintenance | 36,059 | 2,469 | 466 | 38,994 |
| Bad debt expense | - | - | 29,800 | 29,800 |
| Insurance | 25,496 | 1,746 | 1,394 | 28,636 |
| Other | 12,648 | 866 | 8,517 | 22,031 |
| Fundraising | - | - | 9,656 | 9,656 |
| Telephone and Internet | 8,131 | 557 | 105 | 8,793 |
| Professional fees | - | 8,647 | - | 8,647 |
| Board development | 729 | 6,559 | - | 7,288 |
| Recruiting | 3,971 | - | - | 3,971 |
| Museum partnerships and student activities | 918 | - | - | 918 |
| Total expenses before in-kind | 4,357,629 | 339,948 | 102,944 | 4,800,521 |
| In-kind expenses | | | | |
| Donated auction items | - | - | 57,386 | 57,386 |
| Rent | 221,806 | 15,188 | 2,866 | 239,860 |
| Total expenses | $ 4,579,435 | $ 355,136 | $ 163,196 | $ 5,097,767 |

See auditors' report and accompanying notes

# AVONDALE EDUCATION ASSOCIATION, INC.
# DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
# AND THE MUSEUM SCHOOL FOUNDATION, INC.
## COMBINED STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2015

| | | Support Services | | |
|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total |
| Expenses | | | | |
| Salaries | $ 2,163,976 | $ 178,243 | $ 43,777 | $ 2,385,996 |
| Taxes and benefits | 495,047 | 40,776 | 10,015 | 545,838 |
| Depreciation | 282,088 | 23,235 | 5,707 | 311,030 |
| Supplies | 436,435 | 22,868 | 2,257 | 461,560 |
| Contract labor | 62,115 | 30,445 | - | 92,560 |
| Postage and utilities | 56,462 | 4,651 | 1,142 | 62,255 |
| Food program | 63,492 | - | - | 63,492 |
| Repairs and maintenance | 33,913 | 2,793 | 686 | 37,392 |
| Insurance | 18,014 | 1,484 | 2,602 | 22,100 |
| Other | 18,254 | 1,493 | 6,032 | 25,779 |
| Fundraising | - | - | 15,096 | 15,096 |
| Telephone and Internet | 8,703 | 717 | 176 | 9,596 |
| Professional fees | - | 11,634 | - | 11,634 |
| Board development | 111 | 996 | - | 1,107 |
| Recruiting | 1,289 | - | - | 1,289 |
| Museum partnerships and student activities | 699 | - | 111 | 810 |
| Interest | - | 2,500 | - | 2,500 |
| Total expenses before in-kind | 3,640,598 | 321,835 | 87,601 | 4,050,034 |
| In-kind expenses | | | | |
| Donated auction items | - | - | 51,830 | 51,830 |
| Rent | 183,976 | 15,154 | 3,722 | 202,852 |
| Total expenses | $ 3,824,574 | $ 336,989 | $ 143,153 | $ 4,304,716 |

See auditors' report and accompanying notes

AVONDALE EDUCATION ASSOCIATION, INC.
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES
AND THE MUSEUM SCHOOL FOUNDATION, INC.
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 70,507 | $ 547,508 |
| Adjustments: | | |
| Depreciation | 426,625 | 311,030 |
| Donated rent | 239,860 | 202,852 |
| Change in allowance for doubtful accounts | 25,000 | (10,000) |
| Change in net present value discount of pledges receivable | (14,041) | (10,064) |
| Changes in: | | |
| Grants and other receivables | (56,489) | (57,392) |
| Pledges receivable | 181,782 | 95,426 |
| Prepaid expenses | (30,208) | (5,383) |
| Accounts payable and accrued expenses | 61,683 | (112,334) |
| Deferred grant revenue | 11,270 | - |
| Total adjustments | 845,482 | 414,135 |
| Net cash provided by operating activities | 915,989 | 961,643 |
| Cash flows used in investing activities | | |
| Purchase of property and equipment | (977,395) | (993,582) |
| Net change in cash and cash equivalents | (61,406) | (31,939) |
| Cash and cash equivalents, beginning of year | 701,596 | 733,535 |
| Cash and cash equivalents, end of year | $ 640,190 | $ 701,596 |

SUPPLEMENTAL CASH FLOW INFORMATION

| | | |
|---|---|---|
| Cash paid for interest: | $ - | $ 2,500 |

SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS

For the years ended June 30, 2016 and 2015, respectively, $154,926 and $247,334 of property and equipment purchases made were included in accounts payable and accrued expenses at year end.

See auditors' report and accompanying notes

**Note A**
**Nature of Organization and Significant Accounting Policies**

Organization:

The Avondale Education Association, Inc. (the "AEA"), and its supporting foundation, The Museum School Foundation, Inc., collectively the "Organization", is a not-for-profit organization. The Avondale Education Association, Inc. was incorporated in June 2004 and 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. In 2008, 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 in December 2009 for the AEA to serve kindergarten through eighth grade. The AEA conducted its first year of operation in 2010-2011 as a state-chartered commission school and received most of its funding under the Quality Basic Education Act ("QBE") based on the number of students enrolled. In May 2011, the Georgia Supreme Court declared the State Charter Commission unconstitutional and the AEA applied for a charter with the local school system. In June 2011, the DeKalb County Board of Education approved the AEA for a one year charter. In July 2012, the DeKalb County Board of Education approved the AEA for an additional five year charter which is up for renewal June 30, 2017.

The AEA selected the museum concept as its instructional model. This proven school model provides project-based learning through partnerships with museums and other learning institutions to create a curriculum aligned with Georgia State 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". For the 2014-2015 academic years, the AEA served students in kindergarten through seventh grade and for the 2015-2016 academic years, the AEA served students in kindergarten through eighth grade.

* *The Georgia Charter Schools Commission was a state-level, independent charter school authorizing entity, which had 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.*

Principles of Combination:

The accompanying combined financial statements include the accounts of Avondale Education Association, Inc. and its supporting foundation, The Museum School Foundation, Inc. The Museum School Foundation, Inc. was established in November 2011 to generate funds for the educational purpose of Avondale Education Association, Inc. The foundation received its 501(c)(3) status in November 2012 after which it effectively began operations. All significant intercompany transactions between these entities are eliminated in the combined financial statements.

**Note A**
**Nature of Organization and Significant Accounting Policies (Continued)**

Basis of Accounting:

The combined financial statements have been prepared on the accrual basis of accounting. Contributions are recognized upon an unconditional promise to give by a donor to the Organization. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Any contributions received from donors with permanent restrictions will be maintained as permanent restricted net assets in perpetuity. Expenses are recognized when incurred.

Use of Estimates:

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

Income Taxes:

The Organization 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 740, the AEA 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 combined financial statements. The Organization is no longer subject to income tax examinations for fiscal years up to and including 2012.

Cash and Cash Equivalents:

The Organization considers all cash and highly liquid investments with maturities of 3 months or less to be cash equivalents. Cash and cash equivalents consist of cash held at banks, petty cash and money market funds held by other financial institutions at June 30, 2016 and 2015.

Concentration of Credit Risk:

In the normal course of business, the Organization may maintain balances in various accounts held in one bank in excess of the federally insured limit. The Organization has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash deposits.

**Note A**
**Nature of Organization and Significant Accounting Policies (Continued)**

Fair Value:

The Organization applies authoritative accounting guidance concerning fair value measurements that provides a framework for measuring fair value under GAAP. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

There are 3 general valuation techniques that may be used to measure fair value, as described below:

1) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

2) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

3) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The Organization classifies its contributions and pledges receivable in accordance with FASB ASC 820, Fair Value Measurements. This statement establishes a hierarchy of inputs to fair value measurements, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities
Level 2 - Inputs that are derived principally from or corroborated by observable market data
Level 3 - Inputs that are unobservable and significant to the overall fair value measurement

The Organization's pledges receivable are valued using level 3 inputs and are valued based on a discounted cash flow analysis if the receivables extend over a period of one year.

Property and Equipment:

It is the policy of the Organization to capitalize expenditures for property and equipment in excess of $1,000. Depreciation of leasehold improvements, furniture, fixtures, and equipment and signage 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 | Lesser of estimated useful life or life of the lease |
| Equipment, furniture and fixtures | 3 - 7 years |
| Signage | 5 years |

**Note A**
**Nature of Organization and Significant Accounting Policies (Continued)**

Long-Lived Assets:

In accordance with FASB ASC 360, Property, Plant and Equipment, management reviews and assesses long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, management estimates the future cash flows expected to result from the use of the asset. If the sum of the undiscounted expected cash flows is less than the carrying amount of the asset, an impairment loss is recognized based upon the estimated fair value of the asset. As of June 30, 2016 and 2015, no assets were impaired.

Net Asset Classification:

The accompanying combined financial statements have been prepared in accordance with standards set forth in FASB ASC 958 and the associated industry accounting and audit guide. Under these guidelines, contributions of cash and other assets are classified as one of the following categories:

**Unrestricted** - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Temporarily Restricted** - The part of the net assets resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

**Permanently Restricted** - The part of the net assets resulting (a) from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Revenue Recognition:

QBE revenue is recognized ratably over the period to which it relates.

**Note A**
**Nature of Organization and Significant Accounting Policies (Continued)**

Contributions (including unconditional promises to give such as 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 Organization 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.

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

Donated Materials and Services:

Donated equipment, furniture, and fixtures are reflected as contributions in the accompanying statements at their estimated fair values on the date of receipt. The value of donated services is recorded in the financial statements if the services create or enhance non-financial assets or require specialized skills that would typically need to be purchased if not donated.

Functional Expenses:

The Organization allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly. Expenses common to several functions are allocated according to the formula developed by management.

Reclassifications:

Certain prior year amounts have been reclassified in to conform to current year presentation. These reclassifications had no effect on the change in net assets for that year.

**Note B**
**Pledges Receivable**

As of June 30, 2016, contributions and pledges receivable due in less than one year total $234,465. Contributions and pledges receivable due in two to five years total $85,051.

Contributions and pledges receivable consisted of the following as of June 30:

| | 2016 | 2015 |
|---|---|---|
| Pledges receivable | $ 319,516 | $ 501,298 |
| Less: allowance for doubtful accounts | (85,000) | (60,000) |
| Less: present value discount | (9,960) | (24,001) |
| Pledges receivable, net | $ 224,556 | $ 417,297 |

**Note C**
**Property and Equipment, Net**

Property and equipment consists of the following at June 30:

| | 2016 | 2015 |
|---|---|---|
| Leasehold improvements | $ 3,647,915 | $ 2,679,125 |
| Furniture and fixtures | 164,461 | 111,218 |
| Equipment | 131,337 | 90,651 |
| Signage | 16,444 | 16,444 |
| | 3,960,157 | 2,897,438 |
| Less accumulated depreciation | (1,040,719) | (614,094) |
| Total property and equipment, net | $ 2,919,438 | $ 2,283,344 |

Construction costs consist of costs incurred on construction projects that have not yet been completed. The AEA begins depreciating completed construction projects in the month they are placed in service.

Depreciation expense for the years ending June 30, 2016 and 2015, was $426,625 and $311,030, respectively.

**Note D**
**Line of Credit**

The AEA established a line of credit agreement on June 16, 2014, that provided for maximum borrowings of $500,000. Borrowings under the line of credit bore interest at the bank's prime rate plus one percent with a floor of 4.5%. The line of credit was unsecured, but was fully guaranteed by The Museum School Foundation, Inc. and also had $589,500 in personal guarantees provided by members of the AEA's Board of Directors, committee members and other donors and expired on November 30, 2015. The line of credit was renewed with an effective date of July 15, 2016, and provides for maximum borrowings of $425,000. Borrowings under the line of credit bear interest at the bank's prime rate plus one percent with a floor of 4.5%. The line of credit is unsecured, but was fully guaranteed by The Museum School Foundation, Inc. and has $512,500 in personal guarantees provided by members of the AEA's Board of Directors, committee members and other donors and expires on December 31, 2017. Interest expense related to this line of credit was $0 and $2,500 for the years ended June 30, 2016 and 2015. At June 30, 2016 and 2015, the outstanding balance on the line of credit was $0.

**Note E**
**Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

| | 2016 | 2015 |
|---|---|---|
| Donated rent | $ 1,237,167 | $ 1,477,027 |

Temporarily restricted net assets were released from restrictions as follows during the fiscal years ended June 30:

| | 2016 | 2015 |
|---|---|---|
| Donated rent | $ 239,860 | $ 202,852 |

**Note F**
**QBE Funding**

The AEA, as a charter school, receives the majority of its funding under the QBE program, as discussed in Note A. For the years ended June 30, 2016 and 2015, the AEA reflected earnings from the QBE program of $4,350,622 and $3,734,109, respectively.

**Note G**
**Operating Leases**

During November 2011, the AEA signed a new lease with the DeKalb County School District, effective July 1, 2012, and began renovations on the new school building. The AEA moved to the new location in July 2012 prior to commencement of the 2012/2013 school year. The lease is for a term of 10 years expiring on June 30, 2022, with two successive 5 year extension options. The lease stipulated that in lieu of monetary rent, the AEA is to pay all expenses relating to the operation and maintenance of the premises. The lessor can terminate the lease at any time by giving 18 months notice should certain other DeKalb County schools reach 115% of their capacity. Should the lessor terminate the lease, it would be required to pay a termination fee equal to the unamortized cost of any capital improvements made by the AEA at an interest rate of 4.5% over the term. Upon execution of the lease agreement in November 2011, the AEA recognized donated rent revenue of $1,986,028. The approximate fair value of the donated rent was $239,860 and $202,852, for the years ended June 30, 2016 and 2015, respectively. The deferred in-kind donation balances of $1,237,167 and $1,477,027 are shown on the statement of financial position as of June 30, 2016 and 2015, respectively. The balance of the deferred in-kind donation account is subject to significant management estimates.

The AEA leases office equipment under non-cancelable operating lease agreements expiring on various dates through July 2020.

Future minimum lease payments required under all operating leases are as follows:

| | |
|---|---|
| For the year ending June 30, | |
| 2017 | $ 13,176 |
| 2018 | 11,829 |
| 2019 | 7,788 |
| 2020 | 7,788 |
| 2021 | 649 |
| Total future minimum lease payments | $ 41,230 |

**Note H**
**Retirement Plan**

The AEA participates in the Teachers Retirement System of Georgia (TRS), a public retirement system that provides retirement benefits to Georgia's public school teachers. During the years ended June 30, 2016 and 2015, the AEA contributed 14.27% and 13.15%, respectively, of the eligible and participating employees' salaries or $397,684 and $293,999, respectively, as a contribution to the plan.

**Note I**
**Subsequent Events**

As described in Note D, the Organization entered into a line of credit agreement on July 15, 2016. Subsequent to June 30, 2016, but prior to the filing of this report, the Organization used the line of credit to finance construction. As of October 18, 2016, the outstanding balance on the line of credit was $196,700.

The Organization evaluated subsequent events through October 18, 2016, when these combined financial statements were available to be issued. Aside from the item noted in the preceding paragraph, management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the combined financial statements.