- **Accounting procedures**: The following list is a sample list of our internal control procedures:

    - Payroll, employee benefits, depreciation and interest expenses are allocated by functional activities and coded to function
    - Records dealing will allocation of expenses are prepared in a timely manner
    - Fixed Asset listings are maintained in a timely fashion
    - Documentation of secondary review of timesheets, payroll reports, pre-numbered receipts and bank deposits
    - Invoices processed through the accounting system

- **Process used in fiscal decision-making**: Data drives the decision-making when performing fiscal planning. Data, such as, ADM, what needs were met in the previous year, what carry-over is there, and what state budget will be approved, all help us decide how to set our annual budget. The process begins in January when the director meets with a financial consultant, a retired superintendent of schools. Numbers are crunched until the state approves their budget. Teachers discuss during this time, what needs the students are demonstrating that may affect curriculum decisions. High-ticket items, such as vehicles, copy machines, technology equipment are assessed for the ability to make it yet another year or if replacement is inevitable. After the state approves the budget the consultant and the director agree on two scenarios for the school board to review and get clarification on. From there the budget is proposed and then ten days later approved.
- The director is the only personnel on site that has **fiscal authority**. The business manager does the student management system and oversees the accounts payable/receivable. We hire a payroll company to perform duties relating to payroll and taxes. An auditor reviews all once per year.
- Fund-raising is an on-going effort at Mountain School. The most prominent is the Run for the Mountain, a foot race that is part of the Flagstaff Summer Running Series. This particular fund-raiser nets the school nearly $10,000.00, which lately has been put into savings in case of an emergency. Normally, it would be used to purchase something the school needs to improve the facility. The **community involvement** is what makes this particular fund-raiser a favorite as we see the support the community gives our school.

MOUNTAIN SCHOOL, INC.

FINANCIAL STATEMENTS

(WITH INDEPENDENT AUDITOR'S REPORT)

AS OF JUNE 30, 2009

AND

FOR THE YEAR THEN ENDED

MOUNTAIN SCHOOL, INC.
FINANCIAL STATEMENTS AND SPECIAL AUDIT REPORTS
JUNE 30, 2009

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Joel D. Huber, CPA, P.C.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Mountain School, Inc.
Flagstaff, Arizona

I have audited the accompanying statement of financial position of Mountain School, Inc. as of June 30, 2009, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountain School, Inc. as of June 30, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *United States Government Auditing Standards*, I have also issued a report dated August 27, 2009, on my consideration of Mountain School, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *United States Government Auditing Standards* and should be considered in assessing the results of my audit.

Joel D. Huber, CPA, P.C.

Joel D. Huber, CPA, P.C.
August 27, 2009

MOUNTAIN SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

Assets:	
Current Assets	
Cash	$ 93,778
Accounts receivable	7,024
Total Current Assets	100,802
Property and equipment, at cost, pldged, net of accumulated depreciation of $400,310	2,604,324
Other assets:	
Deferred financing costs, net of accumulated amortization of $10,430	19,372
Total Assets	$ 2,724,498
Liabilities and net assets:	
Current Liabilities	
Accounts payable and accrued expenses	$ 28,002
Current portion of note payable	66,994
Total Current Liabilities	94,996
Long Term Liabilities	
Notes payable, less current portion	2,158,144
Total Liabilities	2,253,140
Net Assets:	
Unrestricted	471,358
Temporarily Restricted	0
Total Net Assets	471,358
Total Net Assets and Liabilities	$ 2,724,498

See accompanying notes to the financial statements

MOUNTAIN SCHOOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support:			
Governmental assistance	$ 1,295,726	$ 0	$ 1,295,726
Contributions and other support	44,429		44,429
Other	12,006	0	12,006
Total Revenues, Gains, and Other Support	1,352,161	0	1,352,161
Expenses and Losses:			
Program services			
Charter School	1,189,745	0	1,189,745
Support services			
Management and general	139,292	0	139,292
Fundraising	2,251	0	2,251
Total Expenses	1,331,288	0	1,331,288
Increase (decrease) in net assets	20,873	0	20,873
Net Assets (deficit) at beginning of year	450,485	0	450,485
Net Assets (deficit) at end of year	$ 471,358	$ 0	$ 471,358

See accompanying notes to the financial statements

MOUNTAIN SCHOOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Cash flows from operating activities:		
Change in net assets	$	20,873
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization		141,934
Decrease in accounts receivable		15,537
Decrease in accounts payable and accrued expenses		(20,323)
Net cash provided by operating activities		158,021
Cash flows from investing activities:		
Purchases of property and equipment		(10,825)
Net cash used by investing activities		(10,825)
Cash flows from financing activities:		
Principal payments on note payable		(98,967)
Net cash used by financing activities		(98,967)
Net increase in cash and cash equivalents		48,229
Cash and cash equivalents at beginning of year		45,549
Cash and cash equivalents at end of year	$	93,778
Supplemental disclosures of cash flow information:		
Interest paid	$	169,705
Income tax paid	$	0

See accompanying notes to the financial statements

MOUNTAIN SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mountain School, Inc. operates a public school under the laws of the State of Arizona applicable to charter schools. The operation of Mountain School, Inc. is funded primarily through government grants and assistance.

The financial statements of Mountain School, Inc. have been prepared on the accrual basis of accounting. The more significant of the School's accounting policies are described below.

Income Taxes - The School is exempt from Federal and Arizona income taxes on its exempt function income under Section 501 (c) (3) of the Internal Revenue Code. The School does not receive any non-exempt income and is not a private foundation.

Recognition of donor restricted support - Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and equipment - Land, buildings, and improvements with a cost of $3,000 or more and vehicles, furniture, and equipment with both a cost of $300 or more and an estimated life of one year or more are capitalized. Assets are stated at cost or fair market value at date of gift if contributed. Donations of property and equipment are recorded as support at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of vehicles, furniture and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets, ranging from 5 to 10 years. Buildings and improvements are amortized over 15 to 20 years.

Donations - Donated services are recognized only if the services received either create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of volunteers have made contributions of their time to the School to help with programs, provide clerical support, and assist with general maintenance. The value of this contributed time is not reflected in the financial statements since it does not meet the recognition criteria.

Use of estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Cash equivalents - For the purposes of the statement of cash flows, Mountain School, Inc. considers cash operating bank accounts, money market accounts and cash on hand to be cash or cash equivalents.

Deferred Financing Costs - Deferred financing costs are being amortized on a straight-line method over the term of the note payable, which is 10 years. Amortization expense for the year ended June 20, 2009 was $2,980.

NOTE 2 - PROPERTY AND EQUIPMENT

The following classes of property and equipment are reflected in the accompanying financial statements at June 30, 2009:

Land	$ 407,000
Buildings and improvements	2,499,923
Equipment and vehicles	97,711
	3,004,634
Less Accumulated Depreciation	(400,310)
	$ 2,604,324

Depreciation expense for the year ended June 30, 2009 was $ 138,954.

NOTE 3 - NOTE PAYABLE

In January 2006 the School received a $200,000 credit enhancement from the Charter Schools Development Corporation (CSDC) to assist in securing approximately $2,100,000 in loans to refinance then existing debt as well as to expand facilities. The refinancing was completed with a loan of approximately $1 ,360,000 during the year ended June 30, 2006 and the expansion project was finalized in October 2007.

CSDC was founded in 1997 as a non-profit corporation to serve the charter school community. In 1998, CSDC secured a federal appropriation to design a credit-enhancement program that would leverage private financing for charter school facilities. CSDC initiated a legislative effort which resulted in Congress appropriating over $160 million for the Credit Enhancement for Charter School Facilities Program, a grant program intended to leverage funds through credit enhancement initiatives in order to assist charter schools in using private sector capital to acquire, construct, renovate, or lease academic facilities.

The credit enhancement was made solely for the purpose of providing additional collateral for the School's loans from the bank. The CSDC deposited $200.000 in a money market account held by the bank as collateral for five (5) years and to then be returned to the CSDC. Fifty percent of the monies may be released after 4 years if the School (i) has achieved an enrollment of 170 average daily membership; (ii) has a debt service coverage of at least 1.25 to 1 for the year ended June 30, 2009, and (Hi) there is no monetary default on note payable at the time of such partial release. The credit enhancement will be fully released on the 5th anniversary of the loan provided there is no default on either loan at that time.

NOTE 3 - NOTE PAYABLE (continued)

		2009
7.3% note payable to a bank in monthly installments of $10,836 through December 2015, with a balloon payment of $930,685 due January 2016. Secured by a deed of trust on real property and pledged credit enhancement of $200,000 held by lender; restrictive covenants include maintenance of debt service coverage ration of 1.2 to 1, no additional debt without written consent, notification to bank of significant claims or judgments against the School, no default on other long-ter obligations, maintaining property and liability insurance coverage	$	1,225,138
7.7% construction not payable to a bank in monthly installments $8,136 through February 2016, with a balloon payment of $785,227 due March 2016; secured by a deed of trust on real property and pledged credit enhancement of $200,000 held by lender; restrictive covenants include maintenance of maximum loan to value ratio, no additional debt without written consent, and minimum property and liability insurance coverage.		1,000,000
		2,225,138
		(66,994)
	$	2,158,144

The estimated future maturities of the notes payable at June 30, 2009 were as follows:

Year ending June 30:		
2010	$	63,872
2011		68,799
2012		73,874
2013		79,803
2014		86,119
2015 and thereafter		1,852,671
		2,225,138

Interest expense associated with the note totaled $168,834 for the year ended June 30, 2009.

NOTE 4 - ECONOMIC DEPENDENCY

Mountain School, Inc. receives a substantial amount of its support from a government contract. A significant reduction in the level of support from this source may have a material effect on the School's continuing operations.

NOTE 5 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

NOTE 6 - RETIREMENT PLAN

Plan Description - The School contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by the state and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the School's contribution rate. Active plan members and the School are each required by statute to contribute at an actuarially determined rate of the members' annual covered payroll. The School's contributions to the System for the year ended June 30, 2009 were $44.067.

SPECIAL AUDIT REPORT

Joel D. Huber, CPA, P.C.

Certified Public Accountant

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Mountain School, Inc.
Flagstaff, Arizona

I have audited the financial statements of Mountain School, Inc. as of and for the year ended June 30, 2009, and have issued my report thereon dated August 27, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mountain School, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain School, Inc.'s internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain School, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my

audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *United States Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joel D. Huber, CPA, P.C.

Joel D. Huber, CPA, P.C.
August 27, 2009

MOUNTAIN SCHOOL, INC.
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

STATUS OF PRIOR AUDIT FINDINGS

I have reviewed the status of action taken by the School on the audit conditions and recommendations contained in John C. Todd II, P.C., Certified Public Accountants, dated September 19, 2008. The School has taken sufficient corrective action of the conditions reported on.