

NORTHERN LIGHTS BUILDING COMPANY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2014 and Six Months Ended June 30, 2013

**FORT &
COMPANY, PA**

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NORTHERN LIGHTS BUILDING COMPANY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2014 and Six Months Ended June 30, 2013

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NORTHERN LIGHTS BUILDING COMPANY

ORGANIZATION

June 30, 2014

Todd Hassell

President

Norm Chaffee

Treasurer

Nick Pretasky

Secretary

Vickie Kepler

Board Member

Rodney Lentz

Board Member

Fort & Company, P.A.

Certified Public Accountants

Diane D. Krueger-Pimat, CPA
Christine A. Towner, CPA

Connor B. Michels, EA
Victoria C. Amokly, CPA

John W. Fort, CPA
Kimberly A. Jarvis

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northern Lights Building Company

We have audited the accompanying financial statements of Northern Lights Building Company (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the twelve and six months 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 audit 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 Northern Lights Building Company as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the twelve and six months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 10 and 11 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of

To the Board of Directors
September 10, 2014
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management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fort & Company

Fort & Company, PA
Hibbing, MN
September 10, 2014

NORTHERN LIGHTS BUILDING COMPANY

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

ASSETS

	2014	2013
Current Assets		
Cash	\$ 16,050	\$ -
Petty cash	156	307
Prepaid loan payments	-	432
Total Current Assets	16,206	739
Property and Equipment		
Elevator	38,716	38,716
Land	30,000	30,000
Building	179,743	179,743
Building improvements	848,095	536,015
Blacktop	49,332	49,332
Classrooms	19,143	19,143
Equipment	2,247	2,247
Total Property and Equipment	1,167,276	855,196
Less: accumulated depreciation	(235,914)	(188,282)
Net Property and Equipment	931,362	666,914
Total Assets	\$ 947,568	\$ 667,653

LIABILITIES AND NET ASSETS

Current Liabilities		
Current maturities of long-term debt	\$ 40,881	\$ 40,565
Bank overdraft	-	6,673
Accounts payable	3,224	-
Total Current Liabilities	44,105	47,238
Long-Term Liabilities, less current maturities	418,187	249,083
Total Liabilities	462,292	296,321
Net Assets		
Unrestricted net assets	485,276	371,332
Total Net Assets	485,276	371,332
Total Liabilities and Net Assets	\$ 947,568	\$ 667,653

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

NORTHERN LIGHTS BUILDING COMPANY

STATEMENTS OF ACTIVITIES
 Year Ended June 30, 2014 and Six Months Ended June 30, 2013

	Year Ended June 30, 2014	Six Months Ended June 30, 2013
Revenue		
Rental income	\$ 163,500	\$ 81,750
Miscellaneous income	57,310	-
Total Revenue	220,810	81,750
Expenses		
Program	84,170	33,632
Management and general	22,696	10,281
Total Expenses	106,866	43,913
Increase in Unrestricted Net Assets	113,944	37,837
Net Assets - Beginning of Year	371,332	333,495
Net Assets - End of Year	\$ 485,276	\$ 371,332

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

NORTHERN LIGHTS BUILDING COMPANY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2014 and Six Months Ended June 30, 2013

	Year Ended June 30, 2014	Six Months Ended June 30, 2013
Cash Flows from Operating Activities		
Increase in net assets	\$ 113,944	\$ 37,837
Adjustment to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	47,632	17,922
Increase (decrease) in:		
Bank overdraft	(6,673)	6,673
Accounts payable	3,224	-
Deferred rental income	-	(13,625)
Net Cash Provided by (Used in) Operating Activities	158,127	48,807
Cash Flows from Investing Activities		
Purchase of property and equipment	(312,080)	(51,903)
Net Cash Provided by (Used in) Investing Activities	(312,080)	(51,903)
Cash Flows from Financing Activities		
Borrowings (payments) on long-term debt	169,420	(21,315)
Prepaid loan payments	432	2,233
Net Cash Provided by (Used in) Financing Activities	169,852	(19,082)
Net Increase (Decrease) in Cash	15,899	(22,178)
Cash - Beginning of Year	307	22,485
Cash - End of Year	\$ 16,206	\$ 307
 Supplemental data:		
Interest paid	\$ 24,547	\$ 17,922

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

NORTHERN LIGHTS BUILDING COMPANY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Northern Lights Building Company significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Activities

Northern Lights Building Company is a nonprofit organization whose purpose is to hold and manage real estate and lease the real estate to a State of Minnesota Charter School.

Reporting Entity

In evaluating how to define the entity for financial reporting purposes, management considered whether the Organization is a component unit of another primary government. The Organization holds, manages, and leases property to the Northern Lights Community School. The Organization's basic financial statements include the financial position and results of operations of the Organization. Management has determined that the Organization is appropriately noted as a component unit of the Northern Lights Community School following criteria set forth in generally accepted accounting principals.

Basis of Accounting

The Organization's policy is to prepare financial statements in accordance with accounting principals generally accepted in the United States of America under the accrual basis of accounting which generally records items under historical costs and sometimes requires the use of estimates and assumptions. The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period in which incurred rather than when paid.

Basis of Presentation

For reporting purposes, net assets are made up of three types:

Unrestricted - Comprised of funds which can be used for any purpose.

Temporarily Restricted - Comprised of funds which are donor restricted until certain contingencies are met wherein they are transferred to unrestricted.

Permanently Restricted - Comprised of funds which are donor restricted permanently.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NORTHERN LIGHTS BUILDING COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment purchased is stated at cost, with normal maintenance and repair items charged to operating expense when incurred. Contributed property is recorded at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the property and equipment, ranging from 5 to 39 years. Depreciation expense for the year ended June 30, 2014 and six months ended June 30, 2013 was \$46,428 and \$17,922, respectively.

Allocated Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Northern Lights Building Company.

Income Taxes

The Organization is exempt from federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota laws. Therefore, no provision for income taxes has been made in the accompanying financial statements. However, income from certain activities, if any, not directly related to the Organization's exempt purpose would subject the Organization to taxation as unrelated business income.

The Organization's Form 990 for the years ended December 31, 2010 through December 31, 2013 and six months ended June 30, 2014 are subject to examination by the IRS generally for three years after they are filed.

NOTE 2 FISCAL YEAR CHANGE

Effective for the fiscal year beginning July 1, 2013, the Organization will change from a calendar year end of December 31 to June 30. A six month transition period from January 1, 2013 through June 30, 2013 precedes the start of the new fiscal year cycle.

NOTE 3 MAJOR SOURCES OF REVENUE

The Organization received all of its revenue from Northern Lights Community School for rental of the Building owned by Northern Lights Building Company.

NOTE 4 PREPAID LOAN PAYMENTS

In June 2013, the Organization made loan payments for July 2013 that were refunded in July 2013. The amounts in notes payable reflect the balances due as of June 30, 2014 and 2013.

NORTHERN LIGHTS BUILDING COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 5 CONTINGENCIES

In the opinion of management, there are no significant contingent liabilities, therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 6 DEBT

Long-term debts consists of the following as of June 30,

	2014	2013
5.5 % note, dated June 12, 2013, in the original amount of \$289,648, with principal additions of \$209,985, due in monthly installments of \$5,426, secured by substantially all assets	\$ 459,068	\$ 289,648
Total Long-Term Debt	459,068	289,648
Less: current maturities	40,881	40,565
Net Long-Term Debt	\$ 418,187	\$ 249,083

Maturities of long-term debt as of June 30, 2014 are as follows:

2015		\$ 40,881
2016		43,154
2017		45,652
2018		329,381
		\$ 459,068

NOTE 7 RELATED PARTIES

Northern Lights Community School has been identified as a related party. Nick Pretasky is a director for the Northern Lights Building Company. He is also a director for the Northern Lights Community School and is involved in management of the school.

Transactions include monthly rental income paid by the school to the Organization in the amount of \$163,500 and \$81,750 for the year ended June 30, 2014 and six months ended June 30, 2013, respectively. Lease terms are documented in a formal lease agreement.

NORTHERN LIGHTS BUILDING COMPANY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 8 LEASE AGREEMENTS

A formal lease agreement exists between Northern Lights Building Company and Northern Lights Community School. Northern Lights Community School is a related party. The term of the lease is 5 years with the option to extend the term for an additional 5 years.

Minimum lease payments receivable under the above lease as of June 30, 2014 are as follows:

2014 - 2015	\$	163,500
2015 - 2016		163,500
2016 - 2017		163,500
	\$	<u>490,500</u>

NOTE 9 CONCENTRATIONS

Concentrations exist in the nature of the Organization's existence. Northern Lights Building Company has one lessee. Accordingly, risks exist with the concentrations of risk including the risk of default of rental payments by Northern Lights Community School.

NOTE 10 SUBSEQUENT EVENTS

The date through which events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure is September 10, 2014, which is the date on which the financial statements were available to be issued.

NORTHERN LIGHTS BUILDING COMPANY

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2014 and Six Months Ended June 30, 2013

	Year Ended June 30, 2014		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Functional Expenses			
Accounting fees	\$ -	\$ 1,100	\$ 1,100
Contract management	-	17,613	17,613
Depreciation	47,632	-	47,632
Insurance	-	1,127	1,127
Interest	24,547	-	24,547
Miscellaneous	-	1,049	1,049
Office expense	-	25	25
Postage	-	58	58
Real estate tax	45	-	45
Repairs and maintenance	9,327	-	9,327
Student programs	2,619	-	2,619
Telephone	-	1,083	1,083
Training	-	641	641
Total Functional Expenses	<u>\$ 84,170</u>	<u>\$ 22,696</u>	<u>\$ 106,866</u>

See accompanying independent auditor's report.

NORTHERN LIGHTS BUILDING COMPANY

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2014 and Six Months Ended June 30, 2013

	<u>Six Months Ended June 30, 2013</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Functional Expenses			
Accounting fees	\$ -	\$ 1,200	\$ 1,200
Contract management	-	7,072	7,072
Depreciation	17,922	-	17,922
Interest	8,948	-	8,948
Miscellaneous	-	1,578	1,578
Office expense	-	35	35
Real estate tax	45	-	45
Repairs and maintenance	3,732	-	3,732
Student programs	2,985	-	2,985
Telephone	-	396	396
Total Functional Expenses	<u>\$ 33,632</u>	<u>\$ 10,281</u>	<u>\$ 43,913</u>

See accompanying independent auditor's report.

Fort & Company, P.A.

Certified Public Accountants

Diane D. Krueger-Pirnat, CPA
Christine A. Towner, CPA

Connor B. Michels, EA
Victoria C. Arnoldy, CPA

John W. Fort, CPA
Kimberly A. Jarvis

September 10, 2014

To the Board of Directors
Northern Lights Building Company

We have audited the financial statements of Northern Lights Building Company for the year ended June 30, 2014 and six months ended June 30, 2013, and have issued our report thereon dated September 10, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 5, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Northern Lights Building Company are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. Included in these misstatements are ones that are material misstatements. The net effect of all misstatements identified decreased net assets by \$38,428 and \$2,275 for the year ended June 30, 2014 and six months ended June 30, 2013, respectively.

The significant adjustments for the year ended June 30, 2014 included: increase expenses by \$14,000 to record interest paid on loans, increase expenses by \$46,400 to record depreciation, and decrease expenses by \$24,500 to reverse December 2013 entries made during tax return preparation.

The significant adjustments for the six months ended June 30, 2013 included: increase revenue by \$13,600 to recognize deferred revenue, increase expenses by \$17,900 to record depreciation, and decrease expenses by \$2,600 to capitalize expenses.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Northern Lights Building Company and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Fort & Company

Fort & Company, PA
Hibbing, Minnesota