

THE ACADEMY CHARTER SCHOOL

**FINANCIAL STATEMENTS AND AUDIT REPORTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2017

THE ACADEMY CHARTER SCHOOL
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REPORTS AND SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of The Academy Charter School, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 The Academy Charter School as of June 30, 2017, and the changes in its unrestricted net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Prior Year Financial Statements

The financial statements of The Academy Charter School, as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 18, 2016 expressed an unmodified opinion on those statements. The summarized comparative information presented herein, as of and for the year ended June 30, 2016, was derived from those audited financial statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, shown on Page 17, as required by the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017 on our consideration of The Academy Charter School's internal control over financial reporting and on our 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 our 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 *Government Auditing Standards* in considering The Academy Charter School's internal control over financial reporting and compliance.

Certified Public Accountants

New York, New York
November 1, 2017

THE ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,063,517	\$ 617,591
Accounts and grants receivable - net	724,145	464,660
Due from government agencies	134,666	111,426
TOTAL CURRENT ASSETS	1,922,328	1,193,677
PROPERTY, PLANT AND EQUIPMENT - NET	22,617,760	21,919,966
OTHER ASSETS:		
Restricted cash and escrow reserves	3,443,178	2,928,038
Security deposits	152,420	32,420
TOTAL ASSETS	\$ 28,135,686	\$ 26,074,101
LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,407,677	\$ 459,610
Accrued salaries and other payroll-related expenses	1,156,452	1,034,338
Accrued interest payable	769,339	787,029
Line of credit	-	1,875
Bonds payable - current portion	305,000	285,000
Obligation under capital lease - current portion	322,914	297,427
TOTAL CURRENT LIABILITIES	3,961,382	2,865,279
BONDS PAYABLE - NET OF CURRENT PORTION	21,643,568	21,892,841
OBLIGATIONS UNDER CAPITAL LEASE - NET OF CURRENT PORTION	275,887	598,801
TOTAL LIABILITIES	25,880,837	25,356,921
COMMITMENT AND CONTINGENCIES		
NET ASSETS - UNRESTRICTED:		
Undesignated	2,176,162	639,212
Reserve - contingency	78,687	77,968
TOTAL NET ASSETS - UNRESTRICTED	2,254,849	717,180
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 28,135,686	\$ 26,074,101

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

THE ACADEMY CHARTER SCHOOL

**STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
OPERATING REVENUE AND OTHER SUPPORT:		
Public school district:		
General education	\$ 17,521,211	\$ 14,571,579
Special education	<u>70,692</u>	<u>39,481</u>
Total state and local per pupil operating revenue	<u>17,591,903</u>	<u>14,611,060</u>
Grants, contracts and other support:		
Federal and state grants	848,140	783,436
Contributions	513,841	12,763
Interest and other income	<u>26,798</u>	<u>74,073</u>
Total grants, contracts and other support	<u>1,388,779</u>	<u>870,272</u>
TOTAL OPERATING REVENUE AND OTHER SUPPORT	<u>18,980,682</u>	<u>15,481,332</u>
EXPENSES:		
Program expenses:		
Regular education	13,105,332	11,292,285
Special education	738,850	870,967
Food service	<u>682,149</u>	<u>658,907</u>
Total program expenses	<u>14,526,331</u>	<u>12,822,159</u>
Supporting services:		
Management and general	<u>2,916,682</u>	<u>2,490,804</u>
Total supporting services	<u>2,916,682</u>	<u>2,490,804</u>
TOTAL EXPENSES	<u>17,443,013</u>	<u>15,312,963</u>
INCREASE IN NET ASSETS - UNRESTRICTED	1,537,669	168,369
NET ASSETS - UNRESTRICTED - BEGINNING OF YEAR	<u>717,180</u>	<u>548,811</u>
NET ASSETS - UNRESTRICTED - END OF YEAR	<u>\$ 2,254,849</u>	<u>\$ 717,180</u>

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

THE ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>NUMBER OF POSITIONS</u>	<u>REGULAR EDUCATION</u>	<u>SPECIAL EDUCATION</u>	<u>FOOD SERVICE</u>	<u>TOTAL PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL - 2017</u>	<u>TOTAL - 2016 (SUMMARIZED)</u>
SALARIES AND STAFF:								
Administrative staff personnel	28	\$ 1,632,710	\$ 130,617	\$ -	\$ 1,763,327	\$ 413,620	\$ 2,176,947	\$ 1,968,243
Instructional personnel	117	5,165,888	222,907	-	5,388,795	-	5,388,795	4,486,457
Noninstructional personnel	39	68,983	-	211,228	280,211	922,986	1,203,197	947,802
TOTAL SALARIES AND STAFF	184	6,867,581	353,524	211,228	7,432,333	1,336,606	8,768,939	7,402,502
OPERATING EXPENSES:								
Payroll taxes and fringe benefits		1,420,843	73,141	43,701	1,537,685	276,532	1,814,217	1,628,524
Retirement		147,007	7,567	4,522	159,096	28,611	187,707	172,902
Financial and administrative		280,000	25,000	-	305,000	145,000	450,000	560,000
Administrative		56,632	2,915	-	59,547	12,764	72,311	63,253
Marketing and recruitment		35,059	1,805	-	36,864	7,902	44,766	20,137
Insurance		202,637	10,431	-	213,068	45,671	258,739	213,744
Legal and professional		218,341	11,240	-	229,581	277,265	506,846	232,095
Repairs and maintenance		213,362	10,983	6,562	230,907	41,526	272,433	359,503
Equipment leasing and maintenance		350,619	18,049	-	368,668	79,023	447,691	460,843
Staff development		236,151	12,156	-	248,307	53,224	301,531	183,417
Food costs		-	-	305,118	305,118	-	305,118	316,501
Student services		50,450	13,967	-	64,417	-	64,417	49,883
Supplies and instructional materials		267,613	13,776	-	281,389	60,315	341,704	158,480
Telephone and Internet services		90,543	4,661	-	95,204	20,407	115,611	81,836
Utilities		146,778	7,556	-	154,334	33,081	187,415	172,682
Other expenses		197,413	10,162	6,072	213,647	38,422	252,069	177,494
Interest expense - facilities loans		1,388,055	111,044	74,030	1,573,129	277,611	1,850,740	1,888,884
Interest expense - equipment lease		52,066	4,165	2,777	59,008	10,413	69,421	88,811
Depreciation		842,387	43,364	25,910	911,661	163,950	1,075,611	1,025,745
Amortization		41,795	3,344	2,229	47,368	8,359	55,727	55,727
TOTAL OPERATING EXPENSES		6,237,751	385,326	470,921	7,093,998	1,580,076	8,674,074	7,910,461
TOTAL EXPENSES		\$ 13,105,332	\$ 738,850	\$ 682,149	\$ 14,526,331	\$ 2,916,682	\$ 17,443,013	\$ 15,312,963

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

THE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 1,537,669	\$ 168,369
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	1,075,611	1,025,745
Amortization	55,727	55,727
Changes in operating assets and liabilities:		
Accounts and grants receivable	(259,485)	(46,900)
Due from government agencies	(23,240)	187,600
Security deposits	(120,000)	43,543
Accounts payable	307,130	(38,241)
Accrued salaries and other payroll-related expenses	122,114	231,272
Accrued interest payable	<u>(17,690)</u>	<u>(9)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,677,836</u>	<u>1,627,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash and escrow reserves	(515,139)	486,942
Acquisition of property, plant and equipment	<u>(1,132,469)</u>	<u>(302,605)</u>
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(1,647,608)</u>	<u>184,337</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit	(1,875)	1,875
Obligations under capital lease	(297,427)	(273,951)
Bond payable	(285,000)	(265,000)
Construction costs payable	-	(257,901)
Due to management company	<u>-</u>	<u>(541,889)</u>
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(584,302)</u>	<u>(1,336,866)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	445,926	474,577
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>617,591</u>	<u>143,014</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,063,517</u>	<u>\$ 617,591</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	<u>\$ 640,934</u>	<u>\$ -</u>

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

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Academy Charter School (the "School"), a 501(c)(3) tax-exempt organization, is a public charter school located in Hempstead, New York. The School opened in February 2009 and commenced operating classes for kindergarten through second grade in September 2009, and added third through ninth grade classes in 2010 through 2017. In fiscal year 2018, the School added the tenth grade. The School's charter was renewed in 2014 for an additional five years. The mission of the School is to offer an interdisciplinary curriculum in a technology-rich environment that challenges students to explore connections across subjects and use experiential learning to bridge the gaps between theory and practice. Enrollment is open to all potential student candidates, with those residing in the immediate area given first preference.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. The reclassifications have no effect on 2016 total assets, liabilities, net assets, and change in unrestricted net assets.

(c) Net Asset Presentation

The classification of the School's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities and changes in unrestricted net assets. These classes are defined as follows:

(continued)

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Permanently restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School has no permanently restricted net assets at June 30, 2017.
- Temporarily restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in unrestricted net assets. The School has no temporarily restricted net assets at June 30, 2017.
- Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(d) Cash and Cash Equivalents

The School considers all short-term, highly liquid investments, such as money market funds, to be cash equivalents.

(e) Accounts and Grants Receivable

Accounts and grants receivable are recorded at net realizable value. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectability. Allowances recorded at June 30, 2017 are \$81,275.

(f) Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying statements of activities and changes in unrestricted net assets, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

(g) Restricted Cash and Escrow Reserves

Restricted cash and escrow reserves relate to reserve and escrow accounts that are required to be maintained by the School in accordance with the bond indenture and charter requirements.

(continued)

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Revenue Recognition

The School recognizes revenue from the state and local governments based on the School's charter status and the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement. The New York State Department of Education mandates the rate per pupil. Such revenue is recognized ratably over the related school year during which it is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to students during the applicable school year. Funds received in advance, or any unspent funds for which qualifying expenditures have not been incurred, are recorded as refundable advances. Any unspent amounts usually are returned to the granting agency. However, the granting agency can approve that such amounts be applied to a future grant period.

(i) Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable. Management and general expense includes expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

(j) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Items with an acquisition cost of less than \$500 or a useful life of less than one year are expensed in the year purchased. Depreciation is computed using the straight-line method over estimated useful lives of the respective asset. The estimated depreciable lives of the different classes of property are as follows:

Asset	Useful Life
Building	39 years
Building improvements	39 years
Furniture and fixtures	7 years
Machinery and equipment	3 years
Computer and office equipment	3 years

Depreciation charges for computer equipment financed through capitalized lease obligations are included in depreciation expense. Depreciation for construction-in-progress will commence over the estimated useful lives of the respective assets when the assets are placed in service.

(continued)

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Deferred Expenses

Deferred financing costs are amortized over the terms of the respective bonds and are reported net of accumulated amortization as of June 30, 2017 in bonds payable - net, on the accompanying statement of financial position, pursuant to the adoption of Accounting Standards Update (ASU) 2015-03.

(l) Refundable Advances

Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

(m) Income Taxes

In December 2010, the School filed and received approval of its application for tax-exempt status from the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in IRC sections 509(A)(1) and 170(B)(1)(A)(II).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that, as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The School has not incurred any unrelated business income.

The School is no longer subject to income tax examination by federal, state, or local tax authorities for years before June 30, 2013.

(n) Recently Adopted Accounting Policies

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within fiscal years beginning after December 15, 2016, and shall be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period specific effects of applying the new guidance. On July 1, 2016, the School adopted ASU 2015-03 and applied the guidance to its bonds payable for the period presented. Unamortized deferred financing costs, which were previously included in other assets, totaling \$1,406,432, are included in bonds payable as of June 30, 2017. The adoption of this guidance did not have a material impact on the School's financial statements, as the update relates only to changes in financial statement presentation.

(continued)

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities." Under the new guidance, the existing three-category classification of net assets will be collapsed into two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification, and eliminating the disclosure of investment expenses that are netted against investment returns. ASU 2016-14 is effective for the fiscal years beginning after December 15, 2017 and early adoption is permitted. The School has not yet evaluated the impact this adoption will have on the financial statements.

(p) Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2016 is presented for comparative purposes only. The notes to the financial statements, and certain activity by net asset classification, are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements, as of and for the year ended June 30, 2016, from which the summarized comparative information was derived.

(q) Subsequent Events

Management has evaluated subsequent events occurring after June 30, 2017 through November 1, 2017, which is the date the financial statements were available to be issued. Based on this evaluation, management has determined that no subsequent events have occurred which require disclosure in the financial statements.

NOTE 3 - RESTRICTED CASH AND ESCROW RESERVES

Restricted cash and escrow reserve accounts at June 30, 2017 consist of:

Restricted cash - contingency	\$ 78,687
Restricted cash (held by trustee)	162,272
Interest reserve	996,011
Debt service	2,159,516
Repairs and replacement	<u>46,692</u>
	<u>\$ 3,443,178</u>

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan for all qualifying employees. Employees are eligible for the plan immediately upon employment. Participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, up to \$18,000 for the 2016 and 2017 calendar years. The School matches an employee's contribution up to 4% of the employee's annual compensation. For the year ended June 30, 2017, the School's matching contribution was \$187,707. Such plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the plan's participants and beneficiaries.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2017, property, plant and equipment consisted of the following:

Land	\$ 790,000
Building	17,507,416
Building improvements	3,941,314
Furniture and fixtures	2,041,110
Machinery and equipment	5,000
Computer and office equipment	1,675,621
Construction-in-progress	<u>1,188,830</u>
	27,149,291
Less, accumulated depreciation	<u>4,531,531</u>
	<u>\$ 22,617,760</u>

Refer to Note 12 for future acquisitions.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses consist primarily of amounts due to staff for payroll earned during the school year but paid out over the summer months.

NOTE 7 - BONDS PAYABLE

On March 23, 2011, The Town of Hempstead Local Development Corporation provided financing through the issuance of \$10,505,000 in Tax-Exempt Education Revenue Bonds (the "Series 2011A Bonds"), bearing interest at 8.25% per annum, with principal due at varying amounts annually through maturity on February 1, 2041, as well as \$235,000 in Taxable Education Revenue Bonds (the "Series 2011B Bonds"), bearing interest at 8% per annum. The Series 2011B Bonds were repaid in full on February 1, 2014. The proceeds of the bonds were used to purchase and renovate a two-story building at Hempstead, New York, to be used as classroom, cafeteria, kitchen, and administration space.

(continued)

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE (Continued)

On December 23, 2013, The Town of Hempstead Local Development Corporation provided financing through the issuance of \$12,970,000 in Tax-Exempt Education Revenue Bonds (the "Series 2013A Bonds"), bearing interest at 7.65% per annum, with principal due at varying amounts annually through maturity on February 1, 2044, as well as \$545,000 in Taxable Education Revenue Bonds (the "Series 2013B Bonds"), bearing interest rate at 7.25% per annum, with principal due at varying amounts annually through maturity on February 1, 2019. The proceeds of the bonds were used to purchase and renovate a four-story building at Hempstead, New York, to be used as classroom and administration space.

Future minimum principal payments for the next five years in the aggregate and thereafter are as follows:

Year Ending June 30,	Amount
2018	\$ 305,000
2019	335,000
2020	355,000
2021	385,000
2022	415,000
Thereafter	<u>21,560,000</u>
Total principal payments	23,355,000
Unamortized deferred financing costs (Note 2(n))	<u>1,406,432</u>
	<u>\$ 21,948,568</u>

Debt Services Coverage Ratio

Pursuant to the loan agreements, the School is required to maintain ongoing debt service coverage ratio greater than 1.15.

NOTE 8 - CAPITAL LEASES

In August and September 2014, the School entered into five capital lease agreements for furniture and fixtures, and computer equipment. The leases, totaling \$1,421,144, require monthly payments of \$30,230, including interest at 8.25%, maturing in September 2018 and August 2019.

(continued)

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - CAPITAL LEASES (Continued)

Future lease payments under these capital leases are as follows:

Year Ending June 30,		
2018	\$	362,757
2019		285,771
2020		4,765
		653,293
Less, effective interest at 8.25%		54,492
Present value of capital lease		598,801
Less, current portion		322,914
Noncurrent portion	\$	275,887

NOTE 9 - MANAGEMENT

The School entered into an agreement with Victory Schools, Inc., d/b/a Victory Education Partners (VEP), in June 2009, amended in August 2012, to provide services related to certain education and operational aspects of the School. VEP serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of the charter and the Charter School Act.

For the year ended June 30, 2017, the service fee was \$450,000. At June 30, 2017, \$22,661 was due to the management company and is included in accounts payable on the accompanying statement of financial position.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The School maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and cash equivalents.

The School received approximately 86% of its operating revenue, which is subject to specific requirements, from per pupil funding from the districts of Hempstead and Uniondale during the year ended June 30, 2017. Additionally, the School's accounts and grants receivable consists of approximately 80% from the New York State Department of Education and one organization.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - CONTINGENCIES

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, grant agreements, and other matters applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, such ultimate liability should not, in the opinion of management, have a material effect on the School's financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

The School is involved in an ongoing litigation related to the middle school construction project which took place in 2014. There is a dispute between the general contractor, DECA Development II, Inc., and Renaissance Contracting Building Corp., in regards to the balance due from a change order. Based upon management's opinion, the outcome of such matters is not expected to have material adverse effect on The Academy Charter School's statement of financial position or statement of activities and changes in unrestricted net assets.

NOTE 12 - SUBSEQUENT EVENTS

In August 2017, the Town of Hempstead Local Development Corporation provided financing through the issuance of \$35,900,000 in Tax-Exempt Education Revenue Bonds (the "Series 2017A Bonds"), bearing interest from 5.45% to 6.24% per annum, with principal due at varying amounts annually through maturity on February 1, 2047, as well as \$2,685,000 in Taxable Education Revenue Bonds (the "Series 2017B Bonds"), bearing interest at 6.59% per annum, with principal due at varying amounts annually through maturity on February 1, 2024. The proceeds of the bonds will be used for the acquisition, construction, equipment and furnishing of an approximately 112,500 square foot building. The School estimates the cost of the entire project to be approximately \$30,000,000.

SUPPLEMENTARY FINANCIAL INFORMATION

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH IDENTIFYING NUMBER</u>	<u>PASS-THROUGH TO SUBRECIPIENT</u>	<u>TOTAL FEDERAL EXPENDITURES</u>
UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF ELEMENTARY AND SECONDARY EDUCATION:				
Pass-Through New York State Department of Education:				
Title I Grants to Local Educational Agencies	84.010A	0021-17-4495	\$ -	\$ 213,770
Supporting Effective Instruction State Grants (formerly, Improving Teacher Quality State Grants)	84.367A	0147-17-4495	-	<u>8,486</u>
Subtotal			<u>-</u>	<u>222,256</u>
UNITED STATES DEPARTMENT OF AGRICULTURE:				
Pass-Through New York State Department of Education (Child Nutrition Cluster):				
School Breakfast Program	10.553	Not available	-	116,562
National School Lunch Program	10.555	Not available	-	354,574
Summer Food Service Program for Children	10.559	Not available	-	<u>120,236</u>
Subtotal			<u>-</u>	<u>591,372</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 813,628</u>

The accompanying notes to financial statements and independent auditors' report should be read in conjunction with this supplementary schedule.

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Academy Charter School for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of The Academy Charter School, it is not intended to, and does not, present the financial position, changes in net position or cash flows of The Academy Charter School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The amounts reported as expenditures in this Schedule may differ from certain financial reports submitted to federal funding agencies, due to those reports being submitted on either the cash or modified cash basis of accounting.

NOTE 3 - INDIRECT COST RATE

The Academy Charter School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' REPORT 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 Trustees of
The Academy Charter School

We have audited, 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, the financial statements of The Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we are required to be reported under *Government Auditing Standards*.

The Academy Charter School's Response to Findings

The Academy Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Academy Charter School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

New York, New York
November 1, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of
The Academy Charter School

Report on Compliance for Each Major Federal Program

We have audited The Academy Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Academy Charter School's major federal programs for the year ended June 30, 2017. The Academy Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Academy Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Retirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The Academy Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, The Academy Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of The Academy Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Academy Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Academy Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Certified Public Accountants

New York, New York
November 1, 2017

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified Opinion

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified Opinion

- Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance under Section 2CFR 200.516(a)? Yes No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

Yes No

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section II - Financial Statement Findings

There are no financial statement findings and questioned costs noted that are required to be reported under *Government Auditing Standards*.

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs that were noted.

THE ACADEMY CHARTER SCHOOL
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017

Corrective action plan is not applicable for the year ended June 30, 2017.

THE ACADEMY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

There were no prior audit findings.