
THE ACADEMY CHARTER SCHOOL

Financial Statements and Single Audit

For the year ended June 30, 2018

THE ACADEMY CHARTER SCHOOL

Financial Statements

June 30, 2018

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Independent Auditors' Report

To the Board of Trustees of
The Academy Charter School
Hempstead, New York

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, 2018, and the related statements of activities, 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 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 Academy Charter School'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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior period financial statements

The financial statements of The Academy Charter School, as of and for the year ended June 30, 2017, were audited by other auditors whose report dated November 1, 2017 expressed an unmodified opinion on those statements.

Other matters

Report on supplementary information required by New York State

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 19 to 22 are required by the New York State Department of Education who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Such 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 accompanying supplementary information shown on pages 19 to 22 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other 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 23, 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 October 24, 2018 on our consideration of The Academy Charter School 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 internal control over financial reporting and compliance.

NChing LLP

New York, New York
October 24, 2018

THE ACADEMY CHARTER SCHOOL**Statement of Financial Position**

June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 2,564,817	\$ 1,063,517
Accounts and grants receivable - net	602,391	724,145
Due from government agencies	132,815	134,666
Prepaid expenses	110,029	-
	<hr/>	<hr/>
Total current assets	3,410,052	1,922,328
Property and equipment, net - Note 5	43,597,972	22,617,760
Other assets		
Restricted cash and escrow reserves - Note 3	41,670,702	3,443,178
Security deposits	182,345	152,420
	<hr/>	<hr/>
Total assets	<u>\$ 88,861,071</u>	<u>\$ 28,135,686</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 3,678,661	\$ 1,407,677
Accrued salaries and other payroll-related expenses	1,671,372	1,156,452
Accrued interest payable	1,835,238	769,339
Bonds payable - current portion	335,000	305,000
Line of credit	445,387	-
Obligations under capital lease - current portion	271,362	322,914
	<hr/>	<hr/>
Total current liabilities	8,237,020	3,961,382
Bonds payable (less current portion; net of unamortized deferred financing costs of \$4,040,494 in 2018 and \$1,406,432 in 2017) - Note 7	78,724,506	21,643,568
Obligations under capital lease, net of current portion - Note 8	4,525	275,887
	<hr/>	<hr/>
Total liabilities	<u>86,966,051</u>	<u>25,880,837</u>
Net assets - unrestricted		
Undesignated	1,816,123	2,176,162
Reserve - contingency	78,897	78,687
	<hr/>	<hr/>
Total unrestricted net assets	<u>1,895,020</u>	<u>2,254,849</u>
	<hr/>	<hr/>
Total liabilities and unrestricted net assets	<u>\$ 88,861,071</u>	<u>\$ 28,135,686</u>

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

THE ACADEMY CHARTER SCHOOL**Statement of Activities**

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Operating revenue and other support</u>		
Public school district		
General education	\$ 20,254,448	\$ 17,521,211
Special education	-	70,692
	<hr/>	<hr/>
Total state and local per pupil operating revenue	20,254,448	17,591,903
Grants, contracts and other support		
Federal and state grants	1,146,561	848,140
Contributions	15,600	513,841
Interest and other income	221,029	26,798
	<hr/>	<hr/>
Total operating revenue and other support	<u>21,637,638</u>	<u>18,980,682</u>
<u>Expenses</u>		
Program expenses		
Regular education	16,797,506	13,105,332
Special education	737,152	738,850
Food service	1,091,265	682,149
	<hr/>	<hr/>
Total program expenses	18,625,923	14,526,331
Supporting services		
Management and general	3,371,544	2,916,682
	<hr/>	<hr/>
Total program and supporting services expenses	<u>21,997,467</u>	<u>17,443,013</u>
Change in net assets	(359,829)	1,537,669
Unrestricted net assets - beginning of year	2,254,849	717,180
	<hr/>	<hr/>
Unrestricted net assets - end of year	<u>\$ 1,895,020</u>	<u>\$ 2,254,849</u>

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

THE ACADEMY CHARTER SCHOOL
Statement of Functional Expenses
For the year ended June 30, 2018

	Program expenses				Supporting services	Total 2018
	Regular education	Special education	Food service	Total programs	Management & general	
Salaries and staff						
Instructional personnel	\$ 6,442,804	\$ 149,484	\$ -	\$ 6,592,288	\$ -	\$ 6,592,288
Administrative staff personnel	2,346,859	187,749	-	2,534,608	594,538	3,129,146
Noninstructional personnel	69,059	-	385,404	454,463	1,101,415	1,555,878
Total salaries and staff	8,858,722	337,233	385,404	9,581,359	1,695,953	11,277,312
Operating expenses						
Payroll taxes and fringe benefits	1,830,180	69,671	79,623	1,979,474	318,706	2,298,180
Retirement	181,281	6,901	7,887	196,069	29,724	225,793
Financial and administrative	280,000	25,000	-	305,000	145,000	450,000
Administrative	88,209	3,358	-	91,567	19,905	111,472
Marketing and recruitment	39,788	1,514	-	41,302	10,255	51,557
Insurance	308,221	11,733	-	319,954	63,946	383,900
Legal and professional	100,892	3,841	-	104,733	117,125	221,858
Repairs and maintenance	411,529	15,666	17,904	445,099	67,476	512,575
Equipment leasing and maintenance	497,342	18,933	-	516,275	103,183	619,458
Staff development	494,199	18,813	-	513,012	102,531	615,543
Food costs	-	-	449,365	449,365	-	449,365
Student services	34,285	8,418	-	42,703	-	42,703
Supplies and instructional materials	306,646	11,673	-	318,319	63,620	381,939
Telephone and Internet services	120,774	4,597	-	125,371	25,384	150,755
Utilities	183,524	6,986	-	190,510	38,126	228,636
Other expenses	250,411	9,533	10,894	270,838	44,094	314,932
Interest expense - facilities loans	1,689,160	135,133	90,089	1,914,382	337,832	2,252,214
Interest expense - equipment lease	44,426	3,554	2,369	50,349	8,885	59,234
Depreciation	992,993	37,801	43,201	1,073,995	162,814	1,236,809
Amortization	84,924	6,794	4,529	96,247	16,985	113,232
Total operating expenses	7,938,784	399,919	705,861	9,044,564	1,675,591	10,720,155
Total expenses	\$ 16,797,506	\$ 737,152	\$ 1,091,265	\$ 18,625,923	\$ 3,371,544	\$ 21,997,467

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

THE ACADEMY CHARTER SCHOOL
Statement of Functional Expenses
For the year ended June 30, 2017

	Program expenses			Total programs	Supporting services	Total 2017
	Regular education	Special education	Food service		Management & general	
Salaries and staff						
Instructional personnel	\$ 5,165,888	\$ 222,907	\$ -	\$ 5,388,795	\$ -	\$ 5,388,795
Administrative staff personnel	1,632,710	130,617	-	1,763,327	413,620	2,176,947
Noninstructional personnel	68,983	-	211,228	280,211	922,986	1,203,197
Total salaries and staff	<u>6,867,581</u>	<u>353,524</u>	<u>211,228</u>	<u>7,432,333</u>	<u>1,336,606</u>	<u>8,768,939</u>
Operating expenses						
Payroll taxes and fringe benefits	1,420,843	73,141	43,701	1,537,685	276,532	1,814,217
Retirement	147,007	7,567	4,522	159,096	28,611	187,707
Financial and administrative	280,000	25,000	-	305,000	145,000	450,000
Administrative	56,632	2,915	-	59,547	12,764	72,311
Marketing and recruitment	35,059	1,805	-	36,864	7,902	44,766
Insurance	202,637	10,431	-	213,068	45,671	258,739
Legal and professional	218,341	11,240	-	229,581	277,265	506,846
Repairs and maintenance	213,362	10,983	6,562	230,907	41,526	272,433
Equipment leasing and maintenance	350,619	18,049	-	368,668	79,023	447,691
Staff development	236,151	12,156	-	248,307	53,224	301,531
Food costs	-	-	305,118	305,118	-	305,118
Student services	50,450	13,967	-	64,417	-	64,417
Supplies and instructional materials	267,613	13,776	-	281,389	60,315	341,704
Telephone and Internet services	90,543	4,661	-	95,204	20,407	115,611
Utilities	146,778	7,556	-	154,334	33,081	187,415
Other expenses	197,413	10,162	6,072	213,647	38,422	252,069
Interest expense - facilities loans	1,388,055	111,044	74,030	1,573,129	277,611	1,850,740
Interest expense - equipment lease	52,066	4,165	2,777	59,008	10,413	69,421
Depreciation	842,387	43,364	25,910	911,661	163,950	1,075,611
Amortization	41,795	3,344	2,229	47,368	8,359	55,727
Total operating expenses	<u>6,237,751</u>	<u>385,326</u>	<u>470,921</u>	<u>7,093,998</u>	<u>1,580,076</u>	<u>8,674,074</u>
Total expenses	<u>\$13,105,332</u>	<u>\$738,850</u>	<u>\$682,149</u>	<u>\$14,526,331</u>	<u>\$2,916,682</u>	<u>\$17,443,013</u>

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

THE ACADEMY CHARTER SCHOOL**Statement of Cash Flows**

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (359,829)	\$ 1,537,669
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,236,809	1,075,611
Amortization	113,232	55,727
Changes in operating assets and liabilities		
Accounts and grants receivable	121,754	(259,485)
Due from government agencies	1,851	(23,240)
Security deposits	(29,925)	(120,000)
Prepaid expenses	(110,029)	-
Accounts payable	2,270,984	307,130
Accrued salaries and other payroll-related expenses	514,920	122,114
Accrued interest payable	1,065,899	(17,690)
Net cash provided by operating activities	<u>4,825,666</u>	<u>2,677,836</u>
Cash flows from investing activities		
Increase in restricted cash and escrow reserves	(38,227,524)	(515,139)
Acquisition of property, plant and equipment	<u>(22,217,021)</u>	<u>(1,132,469)</u>
Net cash used in investing activities	<u>(60,444,545)</u>	<u>(1,647,608)</u>
Cash flows from financing activities		
Repayments	(305,000)	(285,000)
Proceeds from bonds issuance	57,302,706	-
Draws on line of credit	445,387	(1,875)
Obligations under capital leases	<u>(322,914)</u>	<u>(297,427)</u>
Net cash provided by/(used in) financing activities	<u>57,120,179</u>	<u>(584,302)</u>
Net increase in cash and cash equivalents	1,501,300	445,926
Cash and cash equivalents - beginning of year	<u>1,063,517</u>	<u>617,591</u>
Cash and cash equivalents - end of year	<u>\$ 2,564,817</u>	<u>\$ 1,063,517</u>
Supplemental cash flow disclosures		
Interest paid	<u>\$ 3,049,173</u>	<u>\$ 1,937,851</u>
Interest capitalized	<u>\$ 2,194,911</u>	<u>\$ 640,934</u>

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

THE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 1 Organization

The Academy Charter School (“TACS”), 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 tenth grade classes in 2010 through 2018. In fiscal year 2019, TACS added the eleventh grade. The TACS charter was renewed in 2014 for an additional five years. The mission of TACS 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 a preference for those residing in the immediate area.

Effective December 2017, The Academy Charter School – Uniondale location received its charter approval from The State University of New York Charter School Institute. In September 2018, The Academy Charter School – Uniondale began to operate classes from kindergarten to second grade.

From hereon in, The Academy Charter School, Hempstead location, is referred to as “The Academy – Hempstead” and The Academy Charter School – Uniondale is referred to as “The Academy – Uniondale”. Collectively, The Academy – Hempstead and The Academy – Uniondale will be referred to as “The School”.

Note 2 Summary of significant accounting policies

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

Reclassifications. Certain accounts relating to the prior year have been reclassified to conform to the current year’s presentation. The reclassifications had no effect on 2017 net assets.

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.

THE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

These classes are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by 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 currently does not possess any permanently restricted net assets.

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. The School has no temporarily restricted net assets at June 30, 2018.

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

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

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. Such revenue 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 in which it is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the 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 might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Accounts and grants receivable. Accounts and grants receivables 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, 2018 and 2017 are \$293,598 and \$81,275, respectively.

THE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

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:

<u>Asset</u>	<u>Useful Life</u>
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.

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

Deferred expenses. Deferred financing costs are amortized over the terms of the bonds and are reported net of accumulated amortization as of June 30, 2018 and 2017 in bond payable – net, on the accompanying statement of financial position, pursuant to Accounting Standards Update (ASU) 2015-03.

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 statements of financial position.

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

THE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

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.

Income taxes. The School is tax-exempt 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, 2018, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the accompanying financial statements.

The School is no longer subject to income tax examination by tax authorities for years before June 30, 2014.

Subsequent events. Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 24, 2018, the date that the financial statements were available to be issued.

Note 3 Restricted cash and escrow reserves

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

	2018			
	The Academy - Uniondale	The Academy - Hempstead	Total	2017
Restricted cash - contingency	\$ 250	\$ 78,897	\$ 79,147	\$ 78,687
Restricted cash – held by trustee	8,231,990	23,128,156	31,360,146	162,272
Interest reserve	2,316,625	995,183	3,311,808	996,011
Debt Service	1,741,475	5,117,719	6,859,194	2,159,516
Repairs and replacement	-	60,407	60,407	46,692
Total	<u>\$ 12,290,340</u>	<u>\$ 29,380,362</u>	<u>\$ 41,670,702</u>	<u>\$ 3,443,178</u>

THE ACADEMY CHARTER SCHOOL**Notes to Financial Statements**

June 30, 2018

Note 4 Retirement 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 IRS limits for each calendar year. The School matches an employee's contribution up to 4% of the employee's annual compensation. For the years ended June 30, 2018 and 2017, the School's matching contributions were \$225,793 and \$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

Property, plant and equipment consist of the following as of June 30,:

	2018			2017
	The Academy - Uniondale	The Academy - Hempstead	Total	
Land	\$ -	\$ 790,000	\$ 790,000	\$ 790,000
Building	-	17,507,416	17,507,416	17,507,416
Building improvements	-	3,955,414	3,955,414	3,941,314
Furniture and fixtures	-	2,087,480	2,087,480	2,041,110
Machinery and equipment	-	5,000	5,000	5,000
Computer and office equipment	-	2,311,640	2,311,640	1,675,621
Construction-in-progress	8,101,457	14,607,906	22,709,363	1,188,830
	8,101,457	41,264,856	49,366,313	27,149,291
Less, accumulated depreciation	-	(5,768,341)	(5,768,341)	(4,531,531)
Total	\$ 8,101,457	\$ 35,496,515	\$ 43,597,972	\$ 22,617,760

Note 6 Accrued salary and other payroll expenses

Accrued payroll and benefits consist of amounts earned by the staff during the school year, but paid over the summer months. As of June 30, 2018 and 2017, accrued payroll amounted to \$1,243,136 and \$1,047,789, respectively. Also included are other payroll accrual of \$428,236 and \$108,663 as of June 30, 2018 and 2017, respectively.

THE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

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 fully 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 for The Academy - Hempstead.

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 for The Academy - Hempstead.

On August 10, 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 rate at 6.59%% per annum, with principal due at varying amounts annually through maturity on February 1, 2024. The proceeds of the bonds were used for the acquisition, construction, equipment, and furnishing of an approximately 112,500 square foot building for The Academy - Hempstead.

On June 26, 2018, The Town of Hempstead Local Development Corporation provided financing through the issuance of \$19,520,000 in Tax-Exempt Education Revenue Bonds (the "Series 2018A Bonds"), bearing interest from 6.47% to 7.24% per annum, with principal due at varying amounts annually through maturity on February 1, 2048, as well as \$1,945,000 in Taxable Education Revenue Bonds (the "Series 2018B Bonds"), bearing interest rate at 7.24%% per annum, with principal due at varying amounts annually through maturity on February 1, 2027. The proceeds of the bonds were used for the acquisition and renovation of building for The Academy - Uniondale.

THE ACADEMY CHARTER SCHOOL**Notes to Financial Statements**

June 30, 2018

Note 7 Bonds payable - (continued)

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

<u>June 30,</u>	The Academy - Uniondale	The Academy - Hempstead	Total
2019	\$ -	\$ 335,000	\$ 335,000
2020	-	910,000	910,000
2021	100,000	975,000	1,075,000
2022	295,000	1,045,000	1,340,000
2023	315,000	1,125,000	1,440,000
Thereafter	20,755,000	57,245,000	78,000,000
Unamortized financing charge	<u>(1,118,859)</u>	<u>(2,921,635)</u>	<u>(4,040,494)</u>
Total	<u>\$ 20,346,141</u>	<u>\$ 58,713,365</u>	<u>\$ 79,059,506</u>
Bonds payable - current	\$ -	\$ 335,000	\$ 335,000
Bonds payable – long term	<u>20,346,141</u>	<u>58,378,365</u>	<u>78,724,506</u>
Total bonds payable	<u>\$ 20,346,141</u>	<u>\$ 58,713,365</u>	<u>\$ 79,059,506</u>

THE ACADEMY CHARTER SCHOOL**Notes to Financial Statements**

June 30, 2018

Note 7 Bonds payable -- (continued)

Pursuant to the loan agreements, The Academy - Hempstead is required to comply with various debt covenants. The minimum requirement and actual results as of and for the year ended June 30, 2018 for each of the debt covenants are as follows:

	<u>Minimum Requirement</u>	<u>Actual</u>
Debt service coverage ratio	1.10	1.15
Days cash on hand	30	45

The debt service coverage ratio is calculated as follows:

Increase in net assets	\$ (348,811)		
Add back: Interest expense	1,905,652		
Depreciation and amortization	<u>1,350,041</u>		
Net revenues available for debt service	<u>\$ 2,906,882</u>		
Debt service payments			
Interest expense	\$ 1,905,652		
Principal	<u>627,914</u>		
Total current debt service	<u>\$ 2,533,566</u>		
Net revenues available for debt service	<u>\$ 2,906,882</u>	=	1.15
Total current debt service	<u>\$ 2,533,566</u>		

The days cash on hand is calculated as follows:

Total expenses	\$ 21,986,449		
Less: Depreciation and amortization	<u>(1,350,041)</u>		
Net expenses	20,636,408		
Days	<u>365</u>		
Cash used per day	<u>\$ 56,538</u>		
Cash at year end	<u>\$ 2,563,853</u>	=	45
Cash used per day	<u>\$ 56,538</u>		

The Academy – Uniondale is exempt from covenants compliance for the year ended June 30, 2018.

THE ACADEMY CHARTER SCHOOL**Notes to Financial Statements**

June 30, 2018

Note 8 Capital Leases

In August and September 2014, The Academy - Hempstead 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%, and mature in September 2018 and August 2019.

<u>June 30,</u>	<u>Amount</u>
2019	\$ 285,771
2020	<u>4,765</u>
	290,536
Less effective interest at 8.25%	<u>(14,649)</u>
Present value of capital lease	275,887
Less: current portion	<u>(271,362)</u>
Noncurrent portion	<u><u>\$ 4,525</u></u>

Note 9 Support services

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 Charter School Act.

For the years ended June 30, 2018 and 2017, the service fee was \$450,000.

THE ACADEMY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 10 Concentrations of Credit Risk

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

The School received approximately 78% and 79% of its operating revenue, which is subject to specific requirements, from per pupil funding from the Districts of Hempstead and Uniondale during the years ended June 30, 2018 and 2017, respectively. Additionally, the School's grants receivable consists of approximately 100% and 80% from the New York State Department of Education and one organization.

Note 11 Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain laws, regulations, contracts, and agreements 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 grants and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the 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 School's statement of financial position or statement of activities.

THE ACADEMY CHARTER SCHOOL
Statement of Financial Position: The Academy - Hempstead
For the year ended June 30, 2018

	2018	2017
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 2,563,853	\$ 1,063,517
Accounts and grants receivable - net	643,011	724,145
Due from government agencies	132,815	135,826
Prepaid expenses	10,029	-
Total current assets	3,349,708	1,923,488
Property and equipment, net	35,496,515	22,617,760
Other assets		
Restricted cash and escrow reserves	29,380,362	3,443,178
Security deposits	152,420	152,420
Total assets	<u>\$ 68,379,005</u>	<u>\$ 28,136,846</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 3,547,834	\$ 1,408,837
Accrued salaries and other payroll-related expenses	1,671,372	1,156,452
Accrued interest payable	1,819,122	769,339
Bonds payable - current portion	335,000	305,000
Line of credit	445,387	-
Obligations under capital lease - current portion	271,362	322,914
Total current liabilities	8,090,077	3,962,542
Bonds payable (less current portion; net of unamortized deferred financing costs of \$2,921,635 in 2018 and \$1,406,432 in 2017)	58,378,365	21,643,568
Obligations under capital lease, net of current portion	4,525	275,887
Total liabilities	<u>66,472,967</u>	<u>25,881,997</u>
Net assets - unrestricted		
Undesignated	1,826,891	2,176,162
Reserve - contingency	79,147	78,687
Total unrestricted net assets	<u>1,906,038</u>	<u>2,254,849</u>
Total liabilities and unrestricted net assets	<u>\$ 68,379,005</u>	<u>\$ 28,136,846</u>

THE ACADEMY CHARTER SCHOOL
Statement of Activities: The Academy - Hempstead
For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Operating revenue and other support</u>		
Public school district		
General education	\$ 20,254,448	\$ 17,521,211
Special education	-	70,692
	<u>20,254,448</u>	<u>17,591,903</u>
Total state and local per pupil operating revenue	20,254,448	17,591,903
Grants, contracts and other support		
Federal and state grants	1,146,561	848,140
Contributions	15,600	513,841
Interest and other income	221,029	26,798
	<u>1,383,190</u>	<u>1,388,779</u>
Total operating revenue and other support	<u>21,637,638</u>	<u>18,980,682</u>
<u>Expenses</u>		
Program expenses		
Regular education	16,797,506	13,105,332
Special education	737,152	738,850
Food service	1,091,265	682,149
	<u>18,625,923</u>	<u>14,526,331</u>
Total program expenses	18,625,923	14,526,331
Supporting Services		
Management and general	3,360,526	2,916,682
	<u>3,360,526</u>	<u>2,916,682</u>
Total program and supporting services expenses	<u>21,986,449</u>	<u>17,443,013</u>
Change in net assets	(348,811)	1,537,669
Unrestricted net assets - beginning of year	2,254,849	717,180
	<u>1,906,038</u>	<u>2,254,849</u>
Unrestricted net assets - end of year	<u>\$ 1,906,038</u>	<u>\$ 2,254,849</u>

THE ACADEMY CHARTER SCHOOL
Statement of Financial Position: The Academy - Uniondale
For the year ended June 30, 2018

	<u>2018</u>
<u>Assets</u>	
Current assets	
Cash and cash equivalents	\$ 964
Prepaid expenses	<u>100,000</u>
Total current assets	100,964
Property and equipment, net	8,101,457
Other assets	
Restricted cash and escrow reserves	12,290,340
Security deposits	<u>29,925</u>
Total assets	<u><u>\$ 20,522,686</u></u>
 <u>Liabilities and Net Assets</u>	
Current liabilities	
Accounts payable	\$ 171,447
Accrued interest payable	<u>16,116</u>
Total current liabilities	187,563
Bonds payable (net of unamortized deferred deferred financing costs of \$1,118,859)	<u>20,346,141</u>
Total liabilities	20,533,704
Net assets - unrestricted	<u>(11,018)</u>
Total liabilities and unrestricted net assets	<u><u>\$ 20,522,686</u></u>

THE ACADEMY CHARTER SCHOOL
Statement of Activities: The Academy - Uniondale
For the year ended June 30, 2018

	<u>2018</u>
<u>Expenses</u>	
Supporting Services	
Management and general	<u>11,018</u>
Change in net assets	(11,018)
Unrestricted net assets - beginning of year	<u>-</u>
Unrestricted net assets - end of year	<u><u>\$ (11,018)</u></u>

THE ACADEMY CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA No.	Pass-through identifying number	Federal expenditures
U.S. Department of Education			
Office of Elementary and Secondary Education:			
<u>Pass-through New York State Department of Education:</u>			
Title I Grants to Local Education Agencies	84.010A	0021-18-4495	\$ 295,072
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367A	0147-18-4495	29,187
English Language Acquisition Grants	84.365A	0293-18-4495	<u>10,442</u>
Total U.S. Department of Education			<u>334,701</u>
Child Nutrition Cluster:			
U.S. Department of Agriculture:			
<u>Pass-through New York State Department of Education</u>			
School Breakfast Program	10.553		148,903
National School Lunch Program	10.555		482,101
Summer Food Service Program	10.559		<u>136,210</u>
Total Child Nutrition Cluster (U.S. Department of Agriculture)			<u>767,214</u>
Total Expenditures of Federal Awards			<u>\$ 1,101,915</u>

The accompanying notes are an integral part of this schedule.

THE ACADEMY CHARTER SCHOOL
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of The Academy Charter School for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 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
Hempstead, New York

We have audited, in accordance with the 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, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, 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 October 24, 2018.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered The Academy Charter 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 Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of The Academy Charter 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 entity'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 Academy Charter School's financial statements are free of 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

NChang LLP

New York, New York
October 24, 2018

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors of
The Academy Charter School
Hempstead, New York

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, 2018. The Academy Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, 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 Requirements, 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, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "NCheng LLP". The signature is written in a cursive, slightly slanted style.

New York, New York
October 24, 2018

THE ACADEMY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
 For the year ended June 30, 2018

Schedule 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

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)?

yes no
 yes none reported

Noncompliance material to financial statements noted?

yes no

Federal awards

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)?

yes no
 yes none reported

Type of auditor’s 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 2CFR200.516(a)

yes no

Identification of major federal programs:

CFDA number(s)	Name of Federal Program or Cluster
10.	Child Nutrition Cluster

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, 2018

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*

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, 2018

Corrective action plan is not applicable for the year ended June 30, 2018

THE ACADEMY CHARTER SCHOOL
Summary Schedule of Prior Audit Findings
For the year ended June 30, 2018

There were no prior audit findings