

THE ACADEMY CHARTER SCHOOL  
FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2010

THE ACADEMY CHARTER SCHOOL

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# KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 Seventh Avenue

New York, NY 10001

(212) 631-0700 FAX (212) 631-0109

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
The Academy Charter School

We have audited the accompanying statement of financial position of The Academy Charter School as of June 30, 2010, and the related statements of activities and cash flows for year then ended. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Academy Charter School as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2010 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 and 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 and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedule of functional expenses is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Koch Group & Company, LLP*  
Certified Public Accountants

New York, New York  
October 25, 2010

THE ACADEMY CHARTER SCHOOL  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010

ASSETS

CURRENT ASSETS	
Cash	\$ 105,755
Restricted cash	74,992
Other receivable	5,834
Due from government agencies	300,748
Prepaid expenses	13,392
Security deposits	<u>20,000</u>
Total Current Assets	520,721
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	<u>282,299</u>
Total Assets	<u><u>\$ 803,020</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	\$ 34,647
Accrued expenses	248,350
Unearned income	10,024
Due to management company	<u>5,456</u>
Total Liabilities	<u>298,477</u>
NET ASSETS - UNRESTRICTED	<u>504,543</u>
Total Liabilities and Net Assets	<u><u>\$ 803,020</u></u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

UNRESTRICTED NET ASSETS

REVENUE, GAINS AND OTHER SUPPORT

Public School District	
Resident student enrollment	\$ 2,804,951
Grants and Contracts	
State and local	670,262
Federal - Title and IDEA	67,280
Interest and other income	1,176
Contribution - Foundation/Individual/Corporation	1,265
Food Service/Child Nutrition Program	2,541
	<u>3,547,475</u>
Total Public Support and Revenue	<u>3,547,475</u>

EXPENSES

Program Expenses	
Regular education	2,702,164
Supporting Services	
Management and general	340,768
	<u>3,042,932</u>
Total Expenses	<u>3,042,932</u>

CHANGE IN NET ASSETS

504,543

NET ASSETS

Beginning of year	-
End of year	\$ 504,543

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 504,543
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	59,933
Changes in Assets and Liabilities	
Restricted cash	(74,992)
Other receivable	(5,834)
Due from government agencies	(300,748)
Prepaid expenses	(13,392)
Due to management company	5,456
Accounts payable	34,647
Accrued expenses	248,350
Security deposits	(20,000)
	<u>437,963</u>
Net Cash Provided by Operating Activities	<u>437,963</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of fixed assets	<u>(342,232)</u>
Net Cash Used in Investing Activities	<u>(332,208)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	105,755
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>-</u>
End of year	<u><u>\$ 105,755</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest	<u><u>\$ -</u></u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. Organization

The Academy Charter School ("The School"), a 501 (c)(3) tax-exempt organization, is a public charter high school located in Hempstead, New York. The School opened in September 2009 and commenced operating classes for 168 students in kindergarten through second grade with plans to serve 336 students through fifth grade during the term of its charter. 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.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

b) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Furthermore, information is required to segregate program service expenses from support expenses.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. In-kind contributions, donated services, and materials are recorded at the fair value on the date of donation.

c) Donated Services

No amounts are reflected in the financial statements for donated services, as the services do not meet the specialized skill requirements prescribed under accounting principles generally accepted in the United States of America.



THE ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

2. Summary of Significant Accounting Policies (Continued)

d) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, certain costs and expenses incurred have been allocated among the programs and supporting services benefited. Salaries, wages, and fringe benefits were allocated as direct costs to programs; supporting activity and other costs were allocated as directed costs based on actual costs associated with the activity.

e) Leasehold Improvements and Equipment

Leasehold improvements and equipment are being depreciated using the straight-line method based on their estimated useful lives.

f) Cash and cash equivalents

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 School believes it is not exposed to significant credit risk on cash and equivalents.

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

g) Student Enrollment

Enrollment of available class slots is open to all potential student candidates, with those residing in the immediate area given first preference. A lottery is held to award these available slots.

h) Government Grant Income

The School applies for various government grants each year that are based on several factors such as total students enrolled in the Academy. Reimbursement under per-pupil grants is the result of the calculation of full-time equivalent ("FTE") students attending the school multiplied by a rate determined each year by New York State.

THE ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

3. Restricted Cash

Pursuant to an addendum to the Charter Agreement dated August 4, 2008, from the New York City Department of Education (“NYCDOE”), the NYCDOE requires the school to establish an escrow of at least \$70,000. In the event of termination of the charter, whether prematurely or otherwise, the School shall establish and follow procedures consistent with those required by Section 2851(2)(t) of the New York State Education Law in its use of the escrow.

4. Pupil Enrollment and Other Revenues From Government Agencies

Under the Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from governmental sources that are available to public schools. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School received could vary significantly.

The amounts are based upon actual amounts received as well as estimates by the management based upon the best information available at the time. However, actual amounts received, as determined by the funding source, could vary based on changes in the factors used to calculate the amounts owed.

In addition the school received government funding and grants as follows:

Federal	\$ 67,280
New York State	<u>670,262</u>
	<u>\$ 737,542</u>

THE ACADEMY CHARTER SCHOOL  
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

5. Property and Equipment

At June 30, 2010, property and equipment consisted of the following:

		Estimated Useful <u>Life</u>
Leasehold improvements	\$ 58,673	5 years
Construction in progress	15,521	
Furniture and fixtures	87,986	7 years
Computer equipment	<u>180,052</u>	5 years
	342,232	
Less: Accumulated depreciation	( 59,933)	
Total	<u>\$ 282,299</u>	

Depreciation expense for the year ended June 30, 2010 was \$59,933.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and for payroll earned by the staff during the school year but paid out over the summer months.

7. Defined Contribution Plan

The School offers a 401(k) plan for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$13,239 for the year ended June 30, 2010. 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.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

8. Commitments

The School is a lessee under an operating lease for classroom space and administrative offices. The lease, which expires on July 31, 2010, requires annual payment of \$120,000.

Commencing August 1, 2010, The School is occupying the space on month-to-month tenancy for \$15,000 per month. The landlord or The School can terminate the tenancy upon 30 days written notice to the other.

In September 2009, the school entered into operating lease agreements for equipment. The lease requires monthly payments of \$930 through November 2012.

Future minimum lease payments for the next three years are as follow:

Year ended June 30

2011	\$ 11,164
2012	11,164
2013	4,374

Equipment lease expense was \$6,760 for the year ended June 30, 2010

9. Management

Victory Schools (“Victory”) manages the operations of the School under a management agreement entered into by the School and Victory. The agreement was executed on June 30, 2009. Per the terms of the Agreement, Victory assumes responsibility for all tasks and functions associated with the educational services to be provided to the children enrolled as students at the School in accordance with the terms of the charter and the Charter Schools Act, subject to the appropriate oversight from the School’s Board of Trustees. Victory is responsible for designing the curriculum, acquiring educational materials, hiring all staff, and providing all financial and accounting functions.

In providing the above, Victory is paid a service fee in the amount equal to total full-time equivalent enrollment of students multiplied by \$2,000 on yearly basis. The Per Pupil Fee is increased or decreased each year by the percentage increase or decrease in the Basic Education Funding and Special Education Funding for Charter Schools in the School District of Hempstead as calculated by the New York State Department of Education annually.

THE ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

10. Contingency

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, 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 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.

11. Subsequent Events

There were no significant subsequent events noted. Subsequent events were reviewed through October 25, 2010, the date at which the financial statements were available for issuance.

THE ACADEMY CHARTER SCHOOL  
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010

	Regular Education	Management & General	Total
<u>Personnel Expenses</u>			
Salaries and wages	\$ 1,449,685	\$ -	\$ 1,449,685
Payroll taxes	136,900		136,900
Fringe benefits	181,459		181,459
	1,768,044	-	1,768,044
<u>Operating Expenses</u>			
Contracted services - financial and administrative	-	330,768	330,768
Administrative	17,759		17,759
Advertising	49,589		49,589
Insurance	28,572		28,572
Legal and professional	26,015	10,000	36,015
Repairs and Maintenance	27,196		27,196
Equipment and furnishings	70,273		70,273
Occupancy	152,142		152,142
Postage and shipping	4,606		4,606
Staff development	49,695		49,695
Student services	10,704		10,704
Supplies and materials	77,180		77,180
Instructional materials	284,545		284,545
Food service	22,386		22,386
Telephone and internet services	33,865		33,865
Board expenses	11,159		11,159
Depreciation	59,933		59,933
Other expenses	8,501		8,501
	934,120	340,768	1,274,888
<b>TOTAL EXPENSES</b>	<b>\$ 2,702,164</b>	<b>\$ 340,768</b>	<b>\$ 3,042,932</b>



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INDEPENDENT AUDITOR'S 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 the financial statements of The Academy Charter School as of and for the year ended June 30, 2010, and have issued a report thereon dated October 25, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Academy Charter School's internal control over financial reporting.

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

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

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

*Koch Group & Company, LLP*  
Certified Public Accountants

New York, New York  
October 25, 2010