

THE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011 AND 2010

THE ACADEMY CHARTER SCHOOL

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KOCH GROUP & COMPANY, LLP
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Academy Charter School

We have audited the accompanying statements of financial position of The Academy Charter School as of June 30, 2011 and 2010, and the related statements of activities and cash flows for years 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2011 and 2010, and the results of its operations and its cash flows for the years 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 24, 2011 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedules of functional expenses are presented for purpose of additional analysis and are 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 24, 2011

THE ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION

JUNE 30,

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 65,001	\$ 105,755
Construction cash	582,059	-
Restricted cash	75,744	74,992
Debt service escrow	1,725,422	-
Other receivable	506,502	5,834
Due from government agencies	127,507	300,748
Deferred expenses	803,775	-
Prepaid expenses	51,806	13,392
	3,937,816	500,721
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	8,278,497	282,299
OTHER ASSETS		
Security deposits	32,775	20,000
	\$ 12,249,088	\$ 803,020
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 79,247	\$ 34,647
Accrued expenses	218,964	248,350
Accrued interest payable	221,366	-
Construction loan	10,740,000	-
Unearned income	-	10,024
Due to management company	-	5,456
	11,259,577	298,477
NET ASSETS - UNRESTRICTED	989,511	504,543
Total Liabilities and Net Assets	\$ 12,249,088	\$ 803,020

See notes to financial statements.

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

UNRESTRICTED NET ASSETS	<u>2011</u>	<u>2010</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 4,489,415	\$ 2,804,951
Grants and Contracts		
State and local	76,536	670,262
Federal - Title and IDEA	78,026	67,280
Interest and other income	2,932	1,176
Contribution - Foundation/Individual/Corporation	840	1,265
Food Service/Child Nutrition Program	6,298	2,541
	<u>4,654,047</u>	<u>3,547,475</u>
EXPENSES		
Program Expenses		
Regular education	3,634,312	2,702,164
Supporting Services		
Management and general	<u>534,767</u>	<u>340,768</u>
	<u>4,169,079</u>	<u>3,042,932</u>
CHANGE IN NET ASSETS	484,968	504,543
NET ASSETS		
Beginning of year	<u>504,543</u>	<u>-</u>
End of year	<u><u>\$ 989,511</u></u>	<u><u>\$ 504,543</u></u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 484,968	\$ 504,543
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	93,605	59,933
Changes in Assets and Liabilities		
Other receivable	(500,668)	(5,834)
Due from government agencies	173,241	(300,748)
Prepaid expenses	(38,414)	(13,392)
Due to management company	(5,456)	5,456
Unearned income	(10,024)	10,024
Accounts payable	44,600	34,647
Accrued expenses	(29,386)	248,350
Accrued interest payable	221,366	-
Security deposits	(12,775)	(20,000)
Net cash provided by operating activities	<u>421,057</u>	<u>522,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(752)	(74,992)
Debt service escrow	(1,725,422)	-
Acquisition of fixed assets	(8,089,803)	(342,232)
Net cash used in investing activities	<u>(9,815,977)</u>	<u>(417,224)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred expenses	(803,775)	
Construction loan	10,740,000	-
Net cash provided by financing activities	<u>9,936,225</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	541,305	105,755
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>105,755</u>	<u>-</u>
End of year	<u>\$ 647,060</u>	<u>\$ 105,755</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, 2011 AND 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 was granted a five year charter in February 2009 and commenced operating classes for kindergarten through second grade in September 2009, and added third grade classes in 2010. 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.

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.

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, 2011 AND 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.

3. Restricted Cash

Under the provisions of its charter, the School established a bank account to pay for any legal and audit expenses that would be associated with a dissolution should it occur. The amount as of June 30, 2011, including interest was \$ 75,744.

4. Accounts Payable and Accrued Expenses

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

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

5. 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 receives 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	\$ 76,536
New York State	<u>78,026</u>
	<u>\$ 154,562</u>

6. 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 \$24,747 and \$13,239 for the years ended June 30, 2011 and 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, 2011 AND 2010

7. Property and Equipment

At June 30, 2011 and 2010, property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>	Estimated Useful <u>Life</u>
Building – not in service	\$4,950,000	\$ -	
Land	550,000	-	
Leasehold improvements	58,673	58,673	5 years
Construction in progress	2,531,133	15,521	-
Furniture and fixtures	108,147	87,986	7 years
Computer and office equipment	<u>234,081</u>	<u>180,052</u>	5 years
	8,432,034	342,232	
Less: Accumulated depreciation	<u>(153,537)</u>	<u>(59,933)</u>	
Total	<u>\$8,278,497</u>	<u>\$ 282,299</u>	

Depreciation expense for the years ended June 30, 2011 and 2010 was \$93,605 and \$59,933.

8. 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 and principal due at maturity on February 1, 2041, and \$235,000 in Taxable Education Revenue Bonds (the “Series 2011B Bonds”), bearing interest rate at 8% per annum and principal due at maturity on February 1, 2014.

The proceeds of the Series 2011 Bonds are to be used for the following purposes:

- 1) the acquisition of an existing land and building.
- 2) the construction, renovation and equipping of the two-story building.
- 3) paying certain capital expenditures and capitalized interest during the construction period.
- 4) paying Series 2011 Bond issuance costs.
- 5) funding a Debt Service Reserve account.

For the year ended June 30, 2011, the capitalized interest was \$221,366.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

10. Management

Victory Education Partners (“Victory”) manages the operations of the School under a management agreement executed on June 30, 2009. Under 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 these services, Victory is paid a service fee in the amount equal to total full-time equivalent enrollment of students multiplied by \$2,096 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.

For the years ended June 30, 2011 and 2010 the service fee was \$524,367 and \$330,768.

9. 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 and \$17,667 commencing January 2011. 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.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

9. Commitments (Continued)

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

<u>Year ended June 30</u>	
2012	\$ 11,164
2013	4,374

Equipment lease expense was \$11,164 and \$6,760 for the year ended June 30, 2011 and 2010.

11. 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.

12. Subsequent Events

Management has evaluated subsequent events through October 24, 2011, the date that financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.

THE ACADEMY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011

	Regular Education	Management & General	Total
<u>Personnel Expenses</u>			
Salaries and wages	\$ 2,129,144	\$ -	\$ 2,129,144
Payroll taxes	182,510		182,510
Fringe benefits	313,766		313,766
Total Personnel Expenses	<u>2,625,420</u>	<u>-</u>	<u>2,625,420</u>
<u>Operating Expenses</u>			
Contracted services - financial and administrative	-	524,367	524,367
Administrative	35,429		35,429
Advertising	10,373		10,373
Insurance	48,944		48,944
Legal and professional	23,150	10,400	33,550
Repairs and Maintenance	124,133		124,133
Equipment and furnishings	6,095		6,095
Occupancy	251,971		251,971
Postage and shipping	4,522		4,522
Staff development	91,124		91,124
Student services	48,204		48,204
Transportation service	13,200		13,200
Supplies and materials	50,023		50,023
Instructional materials	125,200		125,200
Food service	18,213		18,213
Telephone and internet services	32,932		32,932
Travel and conference	17,293		17,293
Depreciation	93,605		93,605
Other expenses	14,481		14,481
Total Operating Expenses	<u>1,008,892</u>	<u>534,767</u>	<u>1,543,659</u>
TOTAL EXPENSES	<u><u>\$ 3,634,312</u></u>	<u><u>\$ 534,767</u></u>	<u><u>\$ 4,169,079</u></u>

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
	<u>1,768,044</u>	<u>-</u>	<u>1,768,044</u>
<u>Operating Expenses</u>			
Contracted services - financial and administrative	-	330,768	330,768
Contracted services - other	-		-
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
Travel and conference	11,159		11,159
Depreciation	59,933		59,933
Other expenses	8,501		8,501
	<u>934,120</u>	<u>340,768</u>	<u>1,274,888</u>
Total Operating Expenses			
	<u>\$ 2,702,164</u>	<u>\$ 340,768</u>	<u>\$ 3,042,932</u>
TOTAL EXPENSES			



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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, 2011 and 2010, and have issued a report thereon dated October 24, 2011. 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 audits, 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 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. 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 24, 2011