

**THE ACADEMY CHARTER SCHOOL**  
**FINANCIAL STATEMENTS**  
**WITH INDEPENDENT AUDITOR'S REPORT**  
**JUNE 30, 2013 AND 2012**

THE ACADEMY CHARTER SCHOOL

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# **KOCH GROUP & COMPANY, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
The Academy Charter School

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Academy Charter School, which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Academy Charter School as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

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 purposes of additional analysis and are not a required part of the basic 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 schedule of functional expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

*Loch Group + Company, LLP*  
Certified Public Accountants

New York, New York  
September 30, 2013

**THE ACADEMY CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION**

JUNE 30,

**ASSETS**

	2013	2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 988,805	\$ 80,085
Construction cash	18,259	18,160
Restricted cash	76,766	76,316
Debt service escrow	1,240,839	1,235,199
Other receivable	112,008	462,902
Grants and contracts receivable	-	76,190
Deferred expenses	718,334	743,913
Prepaid expenses	7,172	5,004
	3,162,183	2,697,769
<b>PROPERTY AND EQUIPMENT,</b> at cost, less accumulated depreciation	9,206,498	9,300,866
<b>OTHER ASSETS</b>		
Security deposits	17,160	17,160
	\$ 12,385,841	\$ 12,015,795

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Bonds payable	\$ 120,000	\$ 115,000
Accounts payable	224,647	88,766
Accrued expenses	487,323	339,634
Obligation under capital lease - current portion	72,553	68,826
	904,523	612,226
Bonds payable, less current portion	10,505,000	10,625,000
Obligation under capital lease	94,847	173,395
	11,504,370	11,410,621
<b>NET ASSETS - UNRESTRICTED</b>	881,471	605,174
<b>Total Liabilities and Net Assets</b>	\$ 12,385,841	\$ 12,015,795

See notes to financial statements.

**THE ACADEMY CHARTER SCHOOL**

**STATEMENTS OF ACTIVITIES**

**YEAR ENDED JUNE 30,**

**UNRESTRICTED NET ASSETS**

	<u>2013</u>	<u>2012</u>
<b>REVENUE, GAINS AND OTHER SUPPORT</b>		
Public School District		
Resident student enrollment	\$ 7,459,593	\$ 6,201,112
Grants and Contracts		
State and local	1,610	235,507
Federal - Title and IDEA	163,317	114,998
Food Service and Child Nutrition Program	242,699	-
Interest and other income	948	2,211
Contribution - Foundation/Individual/Corporation	1,095	130
	<u>7,869,262</u>	<u>6,553,958</u>
<b>EXPENSES</b>		
Program Expenses		
Regular education	5,992,774	5,554,691
Special education	328,437	-
Food service	317,676	-
Supporting Services		
Management and general	954,078	1,383,604
	<u>7,592,965</u>	<u>6,938,295</u>
<b>CHANGE IN NET ASSETS</b>	276,297	(384,337)
Beginning of year	605,174	989,511
End of year	<u>\$ 881,471</u>	<u>\$ 605,174</u>

See notes to financial statements.

**THE ACADEMY CHARTER SCHOOL**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED JUNE 30,**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets	\$ 276,297	\$ (384,337)
<b>ADJUSTMENTS TO RECONCILE DECREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Depreciation	466,949	454,204
Amortization	25,580	23,447
<b>Changes in Assets and Liabilities</b>		
Other receivable	350,894	43,600
Grants and contracts receivable	76,190	51,317
Prepaid expenses	(2,168)	46,802
Accounts payable	135,881	9,519
Accrued expenses	147,689	120,670
Accrued interest payable	-	(221,366)
Security deposits	-	15,615
	<u>1,477,312</u>	<u>159,471</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Restricted cash	(450)	(572)
Debt service escrow	(5,640)	490,223
Acquisition of fixed assets	(372,581)	(1,476,573)
	<u>(378,671)</u>	<u>(986,922)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deferred expenses	(1)	36,415
Bonds payable	(115,000)	-
Obligation under capital lease	(74,821)	242,221
	<u>(189,822)</u>	<u>278,636</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	908,819	(548,815)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>98,245</u>	<u>647,060</u>
End of year	<u>\$ 1,007,064</u>	<u>\$ 98,245</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	<u>\$ 885,463</u>	<u>\$ 740,345</u>

See notes to financial statements.

**THE ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

**1. Organization**

The Academy Charter School (“The School”), a 501 (c) (3) tax-exempt organization, is a public charter school located in Hempstead, New York. The School was granted a five year charter in February 2009 and commenced operating classes for kindergarten through second grade in September 2009, and added third, fourth and fifth grade classes in 2010, 2011 and 2012. 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 principles generally accepted in the United States of America.

**b) 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.

**c) Grants and Contributions Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.



THE ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (Continued)

d) 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.

- i) Unrestricted net assets – Net assets that are not subject to grant or donor-imposed stipulations.
- ii) Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2013 and 2012.
- iii) Permanently restricted net assets – Net assets subject to grant or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2013 and 2012.

Furthermore, information is required to segregate program service expenses from support expenses.

e) 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.

f) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

**THE ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

**2. Summary of Significant Accounting Policies (Continued)**

**g) Property and Equipment**

Purchase of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

Construction in progress includes the cost of construction and other indirect costs attributable to the construction. No provision for depreciation is made on construction in progress until the assets are placed in service.

**h) Revenue Recognition**

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

**i) Income Taxes**

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

Management believes that the organization has no uncertain tax positions that would require financial statement recognition.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (Continued)

j) Estimates

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

3. Property and Equipment

At June 30, 2013 and 2012, property and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>	<u>Estimated Useful Life</u>
Building	\$4,950,000	\$4,950,000	39.5 years
Land	550,000	550,000	-
Building improvements	3,428,482	3,016,381	39.5 years
Construction in progress	40,050	242,221	-
Furniture and fixtures	542,599	488,451	7 years
Computer and office equipment	<u>711,385</u>	<u>602,882</u>	5 years
	10,222,516	9,849,935	
Less: Accumulated depreciation	<u>(1,016,018)</u>	<u>(549,069)</u>	
Total	<u>\$9,206,498</u>	<u>\$9,300,866</u>	

Depreciation expense for the years ended June 30, 2013 and 2012 was \$466,949 and \$454,204.

4. 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 dissolution, should it occur.

**THE ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

**5. 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.

**6. 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.

**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 \$80,254 and \$38,966 for the years ended June 30, 2013 and 2012. 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, 2013 AND 2012**

**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 with principal due at varying amounts annually through maturity on February 1, 2041, and \$235,000 in Taxable Education Revenue Bonds (the "Series 2011B Bonds"), bearing interest rate at 8% per annum with principal due at varying amounts annually through maturity on February 1, 2014. For the year ended June 30, 2013, interest expense was \$885,463.

According to the loan agreement, the School is required to maintain debt service accounts with principal due February 1, and interest due February 1, and August 1, of each year.

Future minimum principal payments for the next five years are as follow:

**Fiscal year ending June 30**

2014	\$ 120,000
2015	115,000
2016	125,000
2017	135,000
2018	145,000
2019 and thereafter	<u>10,100,000</u>
Total	<u>\$10,740,000</u>

**9. Capital Lease**

In July 1, 2012, the School obtained equipment, pursuant to a capital lease agreement. The lease requires monthly lease payments of \$8,741 with interest of 19%, through maturity in June 2015.

Future lease payments for the years ending June 30 for the aforementioned lease are as follows:

2014	\$ 72,553
2015	<u>94,847</u>
Obligation under capital lease	<u>\$167,400</u>

THE ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

10. Management

The School entered into an agreement with Victory Schools, Inc. (VSI) d/b/a Victory Education Partners (VEP) in June 2009, which was amended in August 2012 to provide services related to certain education and operational aspects of the School. Victory serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of the charter and the Charter School Act. In providing the above services, VEP was paid a fixed service fee in the amount of \$625,000.

In providing these services, Victory was paid a service fee in the amount of \$625,000 for the year ended June 30, 2013. The fee will be increased annually by 3% for the next two years.

For the years ended June 30, 2013 and 2012 the service fee was \$625,000 and \$716,080.

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 September 30, 2013, 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, 2013**

(With Summarized Comparative Information for the Year Ended June 30, 2012)

	Regular Education	Special Education	Food Service	Total Programs	Management & General	Total	Total 2012
<b>Personnel Expenses</b>							
Salaries and wages	\$ 2,908,991	\$ 158,677	\$ 133,496	\$ 3,201,164	\$ 405,843	\$ 3,607,007	\$ 2,916,203
Payroll taxes and fringe benefits	616,878	33,649	21,359	671,886	64,703	736,589	609,392
Retirement	67,211	3,666	-	70,877	9,377	80,254	38,966
<b>Total Personnel Expenses</b>	<b>3,593,080</b>	<b>195,992</b>	<b>154,855</b>	<b>3,943,927</b>	<b>479,923</b>	<b>4,423,850</b>	<b>3,564,561</b>
<b>Operating Expenses</b>							
Contracted services - financial	468,750	25,000	-	493,750	131,250	625,000	716,080
Administrative	23,220	1,267	-	24,487	3,239	27,726	33,182
Insurance	65,115	3,552	-	68,667	44,510	113,177	76,570
Legal and professional	29,316	1,599	-	30,915	43,955	74,870	57,107
Repairs and Maintenance	130,122	7,098	6,830	144,050	11,324	155,374	161,020
Equipment and furnishings	151,434	8,260	-	159,694	21,127	180,821	155,102
Rent	7,542	411	-	7,953	1,052	9,005	21,327
Staff development	42,533	2,320	-	44,853	5,934	50,787	53,731
Food service	-	-	116,814	116,814	-	116,814	-
Supplies and instructional materials	146,753	8,005	-	154,758	20,474	175,232	345,970
Telephone and internet services	21,563	1,176	-	22,739	3,008	25,747	29,688
Utilities	71,089	3,878	-	74,967	9,918	84,885	102,262
Interest expense	741,556	40,450	-	782,006	103,457	885,463	740,345
Real estate taxes	693	38	-	731	97	828	270,167
Depreciation	391,060	21,331	364	412,755	54,194	466,949	454,204
Amortization	21,422	1,169	-	22,591	2,989	25,580	23,447
Other expenses	87,526	6,891	38,813	133,230	17,627	150,857	133,529
<b>Total Operating Expenses</b>	<b>2,399,694</b>	<b>132,445</b>	<b>162,821</b>	<b>2,694,960</b>	<b>474,155</b>	<b>3,169,115</b>	<b>3,373,731</b>
<b>TOTAL EXPENSES</b>	<b>\$ 5,992,774</b>	<b>\$ 328,437</b>	<b>\$ 317,676</b>	<b>\$ 6,638,887</b>	<b>\$ 954,078</b>	<b>\$ 7,592,965</b>	<b>\$ 6,938,292</b>



**KOCH GROUP & COMPANY, LLP**

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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, 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, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2013.

**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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Koch Group + Company, LLP*  
Certified Public Accountants

New York, New York  
September 30, 2013