

FINN ACADEMY: AN ELMIRA CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Finn Academy: An Elmira Charter School

We have audited the accompanying balance sheet of Finn Academy: An Elmira Charter School (the School) as of June 30, 2016, and the related statements of activities and cash flows for the period July 17, 2014 (date of inception) through June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 School as of June 30, 2016, and the changes in its net assets and cash flows for the period July 17, 2014 (date of inception) through June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The additional schedule of expenses 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. 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 School's internal control over financial reporting and compliance.

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November 1, 2016

Balance Sheet

June 30, 2016

Assets

Current assets:

Cash	\$ 32,377
Grants and other receivables (Note 2)	460,465
Prepaid expenses and other	67,470
	<u>560,312</u>

Property and equipment, net (Note 3)	<u>333,871</u>
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	<u>\$ 894,183</u>
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Liabilities and Net Assets

Current liabilities:

Short-term borrowings (Note 4)	\$ 200,000
Note payable - related party (Note 5)	74,604
Accounts payable	308,691
Accrued expenses	77,540
Deferred revenue	1,650
	<u>662,485</u>

Net assets:

Unrestricted	<u>231,698</u>
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	<u>\$ 894,183</u>
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Statement of Activities

For the period July 17, 2014 (date of inception) through June 30, 2016

Changes in unrestricted net assets:

Support and revenue:

Public school districts:

Revenue - resident student enrollment	\$ 2,356,355
Revenue - students with disabilities	71,602
Revenue - additional state aid	43,025
Federal and local grants	758,350
Interest and other income	24,020
Total support and revenue	<u>3,253,352</u>

Expenses:

Program expenses:

Regular education	1,740,433
Special education	253,686
Other program	159,176

Supporting services:

Management and general	868,359
Total expenses	<u>3,021,654</u>

Change in net assets

231,698

Net assets - beginning

-

Net assets - ending

\$ 231,698

Statement of Cash Flows

For the period July 17, 2014 (date of inception) through June 30, 2016

Operating activities:

Cash received from public school districts	\$ 2,262,813
Cash received from federal and local grants	558,049
Cash received from other sources	24,020
Payments to employees for services and benefits	(1,819,026)
Payments to vendors and suppliers	(902,388)

Net operating activities	<u>123,468</u>
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Investing activities:

Property and equipment expenditures	<u>(365,695)</u>
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Financing activities:

Net proceeds from short-term borrowings	200,000
Net proceeds from note payable	74,604

Net financing activities	<u>274,604</u>
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Net change in cash	32,377
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Cash - beginning	<u>-</u>
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Cash - ending	<u>\$ 32,377</u>
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Reconciliation of change in net assets to net cash flows from operating activities:

Change in net assets	\$ 231,698
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	31,824
Changes in other operating assets and liabilities:	
Grants and other receivables	(460,465)
Prepaid expenses and other	(67,470)
Accounts payable	308,691
Accrued expenses	77,540
Deferred revenue	1,650

Net operating activities	<u>\$ 123,468</u>
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Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Finn Academy: An Elmira Charter School (the School), chartered in 2015, operates a charter school in the City of Elmira, New York (the City) authorized by the Board of Regents of the University of the State of New York. The School currently offers classes from kindergarten through third grade. The School has been chartered through June 2020 and continued operations are contingent upon approval of its charter renewal.

The School’s accompanying statements of activities and cash flows are presented for the period July 17, 2014 (date of inception) through June 30, 2016 to facilitate state reporting requirements.

Summarized activity included in the statement of activities for the period July 17, 2014 through June 30, 2015 is as follows:

Total revenue	\$ 408,835
Total expenses	(406,649)
Net assets	<u>\$ 2,186</u>

Cash:

Cash in financial institutions potentially subjects the School to concentrations of credit risk, since it may exceed insured limits at various times throughout the year.

Accounts Receivable:

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to bad debts expense and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary by management because all significant amounts deemed uncollectible are written off each year.

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided over estimated asset service lives using the straight-line method. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Enrollment Fees:

The School is reimbursed based on the approved operating expense per pupil of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved operating expense per pupil and the full time equivalent enrollment of the students in the Charter School residing in the district. The School’s enrollment fees are received primarily from the City.

Fees and Grants:

The School is the recipient of awards and reimbursements from federal, state and local sources. The awards and reimbursements are subject to compliance and financial audits by the funding source. Management believes no significant adjustments are necessary to recognized amounts.

The School records grant awards accounted for as exchange transactions as deferred revenue until related services are performed.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code.

Transportation Services:

The City of Elmira School District provides transportation services without cost. The value of this service has not been recorded in these financial statements.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cost Allocation:

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events:

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 1, 2016 (the date the financial statements were available to be issued).

2. Grants and Other Receivables:

	<u>2016</u>
Grants	\$ 200,301
Resident student enrollment	208,169
Other	51,995
	<u>\$ 460,465</u>

In July 2016, all New York State charter schools serving students in the 2015-2016 school year received additional state aid. The additional aid was based on the number of students served and was paid directly from the New York Department of Education. Additional aid totaling \$43,025 is included as resident student enrollment receivable on the accompanying balance sheet as of June 30, 2016.

3. Property and Equipment:

	<u>2016</u>
Building improvements	\$ 193,989
Instructional and office equipment	171,706
	<u>365,695</u>
Less accumulated depreciation	31,824
	<u>\$ 333,871</u>

4. Short-Term Borrowings:

During the 2016 fiscal year, the School entered into various loan factoring agreements which assign certain accounts receivable to the lender. Pursuant to the agreements, the debt is due on demand and subject to administrative fees calculated as a percentage of the assigned accounts receivable.

At June 30, 2016, \$200,000 is outstanding, and administrative expenses totaled \$26,311 for the fiscal year then ended.

5. Note Payable – Related Party:

The School entered into an interest free promissory note agreement with an employee whereby the employee agreed to loan the School an amount of \$160,000. Amounts outstanding on the note as of June 30, 2016 totaled \$74,604.

6. Operating Lease:

The School leases property under the terms of a non-cancelable operating lease. Rental expense under this lease was \$109,400 for the period ending June 30, 2016.

Future minimum annual rentals due are \$240,000 through June 2020 with one five year renewal option.

Additional Information
Schedule of Expenses

For the period July 17, 2014 (date of inception) through June 30, 2016

	No. of Positions	Program Services			Supporting	Total
		Regular Education	Special Education	Other Program	Services Management and General	
Salaries						
Administrative staff	7	\$ -	\$ -	\$ -	\$ 567,751	\$ 567,751
Instructional	26	832,277	201,439	-	-	1,033,716
Total salaries	33	832,277	201,439	-	567,751	1,601,467
Fringe benefits and payroll taxes		126,608	30,643	-	77,932	235,183
Staff and student recruitment		2,097	-	-	-	2,097
Contracted services		6,918	-	-	-	6,918
Food service		96,910	-	-	-	96,910
Insurance		29,167	4,167	2,083	6,250	41,667
Interest		26,311	-	-	-	26,311
Occupancy		76,580	10,940	5,470	16,410	109,400
Supplies and materials		80,480	-	-	-	80,480
Office expense		1,306	-	-	11,583	12,889
Other expenses		37,096	-	-	799	37,895
Printing and promotion		63,901	-	-	-	63,901
Professional fees		-	-	-	177,719	177,719
Repairs and maintenance		88,942	-	-	-	88,942
Staff development		110,423	-	-	-	110,423
Student testing and assessment		23,617	-	-	-	23,617
Student activities		12,932	543	-	-	13,475
Technology		41,775	-	-	-	41,775
Telephone		10,577	-	-	-	10,577
Transportation		-	-	148,646	-	148,646
Utilities		41,676	5,954	2,977	8,931	59,538
		1,709,593	253,686	159,176	867,375	2,989,830
Depreciation		30,840	-	-	984	31,824
Total		\$ 1,740,433	\$ 253,686	\$ 159,176	\$ 868,359	\$ 3,021,654

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

The Board of Trustees
Finn Academy: An Elmira 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 Finn Academy: An Elmira Charter School (the School), which comprise the balance sheet as of June 30, 2016, and the related statements of activities and cash flows for the period July 17, 2014 (date of inception) through June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Lynden & McCormick, LLP". The signature is written in a cursive, flowing style.

November 1, 2016