

FINN ACADEMY: AN ELMIRA CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Finn Academy: An Elmira Charter School

We have audited the accompanying balance sheets of Finn Academy: An Elmira Charter School (the School) as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the 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.

Auditors' 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 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, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additional Information

Our audits were 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 October 31, 2018 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.



October 31, 2018

FINN ACADEMY: AN ELMIRA CHARTER SCHOOL

Balance Sheets

June 30,	2018	2017
Assets		
Current assets:		
Cash	\$ 504,621	\$ 622,213
Grants and other receivables (Note 2)	397,271	368,796
Prepaid expenses and other	120,162	110,744
	<u>1,022,054</u>	<u>1,101,753</u>
Property and equipment, net (Note 3)	<u>461,660</u>	328,607
	<u>\$ 1,483,714</u>	<u>\$ 1,430,360</u>
Liabilities and Net Assets		
Current liabilities:		
Short-term borrowings (Note 4)	\$ 200,000	\$ -
Note payable - related party (Note 5)	-	49,736
Accounts payable and accrued expenses	261,601	358,699
Deferred revenue	1,650	544,380
	<u>463,251</u>	<u>952,815</u>
Net assets:		
Unrestricted	<u>1,020,463</u>	477,545
	<u>\$ 1,483,714</u>	<u>\$ 1,430,360</u>

Statements of Activities

For the years ended June 30,	2018	2017
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 3,595,533	\$ 2,803,217
Revenue - students with disabilities	178,564	126,104
Revenue - additional state aid	-	106,024
Federal, state, and local grants	339,488	208,128
Interest and other income	16,202	15,211
Total support and revenue	<u>4,129,787</u>	<u>3,258,684</u>
Expenses:		
Program expenses:		
Regular education	2,190,304	1,838,773
Special education	215,321	229,862
Other program	408,446	315,410
Supporting services:		
Management and general	772,798	628,792
Total expenses	<u>3,586,869</u>	<u>3,012,837</u>
Change in net assets	542,918	245,847
Net assets - beginning	<u>477,545</u>	<u>231,698</u>
Net assets - ending	<u>\$ 1,020,463</u>	<u>\$ 477,545</u>

Statements of Cash Flows

For the years ended June 30,	2018	2017
Operating activities:		
Cash received from public school districts	\$ 3,314,437	\$ 3,478,561
Cash received from federal, state, and local grants	227,943	347,316
Cash received from other sources	16,202	67,206
Payments to employees for services and benefits	(2,327,419)	(1,966,654)
Payments to vendors and suppliers	(1,310,462)	(1,022,178)
Interest paid	-	(44,744)
Net operating activities	(79,299)	859,507
Investing activities:		
Property and equipment expenditures	(188,557)	(44,803)
Financing activities:		
Net proceeds from (payments on) short-term borrowings	200,000	(200,000)
Principal payments on note payable	(49,736)	(24,868)
Net financing activities	150,264	(224,868)
Net change in cash	(117,592)	589,836
Cash - beginning	622,213	32,377
Cash - ending	\$ 504,621	\$ 622,213
Reconciliation of change in net assets to net cash flows from operating activities:		
Change in net assets	\$ 542,918	\$ 245,847
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	55,504	50,067
Changes in other operating assets and liabilities:		
Grants and other receivables	(28,475)	91,669
Prepaid expenses and other	(9,418)	(43,274)
Accounts payable and accrued expenses	(97,098)	(27,532)
Deferred revenue	(542,730)	542,730
Net operating activities	\$ (79,299)	\$ 859,507

See accompanying notes.

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. Pursuant to its charter application, the School began operations in 2016 offering classes from kindergarten through third grade and plans to add one grade per year until eighth grade is reached. The School offered classes from kindergarten through fifth grade in 2018 (kindergarten through fourth grade in 2017). The School has been chartered through June 2020 and continued operations are contingent upon approval of its charter renewal.

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. The School complies with a requirement to hold no less than \$75,000 in an escrow account to pay legal and audit expenses that would be associated with dissolution should it occur.

Receivables:

Receivables are stated at the amounts management expects to collect from outstanding balances. Balances 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.

Enrollment fees received in advance of the applicable school year totaled \$542,730 at June 30, 2017 and are included in deferred revenue on that date.

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.

Use of Estimates:

The preparation of financial statements in accordance 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 through October 31, 2018 (the date the financial statements were available to be issued).

2. Grants and Other Receivables:

	2018	2017
Grants	\$ 171,008	\$ 59,463
Resident student enrollment	226,263	309,333
	<u>\$ 397,271</u>	<u>\$ 368,796</u>

In July 2017, all New York State charter schools serving students in the fiscal 2017 school year received additional state aid. The additional aid received by each school was based on the number of students served and was paid directly from the New York State Department of Education. Additional aid totaling \$106,024 is included as resident student enrollment receivable on the accompanying balance sheet as of June 30, 2017. No additional state aid was received for the year ended June 30, 2018.

3. Property and Equipment:

	2018	2017
Building improvements	\$ 361,487	\$ 224,557
Instructional and office equipment	237,568	185,941
	<u>599,055</u>	410,498
Less accumulated depreciation	137,395	81,891
	<u>\$ 461,660</u>	<u>\$ 328,607</u>

4. Short-Term Borrowings:

In July 2017, the School obtained a \$150,000 unsecured bank demand line of credit with interest payable at prime plus 1%. No amounts are outstanding on the line as of June 30, 2018.

In June 2018, the School obtained a 5.75% bank promissory note of \$200,000 for capital expenditures. The School expects to repay all principal amounts by January 2019.

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, 2017 totaled \$49,736. The note was repaid in September 2017.

6. Pension Plan:

In September 2017, the Board of Trustees of the School adopted a 403(b) plan covering essentially all employees effective as of July 1, 2017. The School contributes 2% of employees' salaries to the plan, subject to certain limitations. The School's pension expense was \$81,981 for the year ended June 30, 2018.

7. Operating Lease:

The School leases property under the terms of a non-cancelable operating lease. Rental expense under this lease was \$240,000 for each of the years ended June 30, 2018 and 2017.

Future minimum annual rentals due are:

2019	\$ 270,000
2020	240,000
	<u>\$ 510,000</u>

Additional Information
Schedule of Expenses

For the year ended June 30, 2018 (with comparative totals for 2017)

	No. of Positions	Program Services			Supporting Services	2018 Total	2017 Total
		Regular Education	Special Education	Other Program	Management and General		
Salaries							
Administrative staff	9.0	\$ -	\$ -	\$ -	\$ 474,509	\$ 474,509	\$ 369,117
Instructional	37.0	1,247,681	140,314	-	-	1,387,995	1,248,605
Non-Instructional	3.0	-	-	62,475	-	62,475	8,645
Total salaries	49.0	1,247,681	140,314	62,475	474,509	1,924,979	1,626,367
Fringe benefits and payroll taxes		264,817	29,781	13,260	100,713	408,571	271,327
Classroom supplies and materials		99,203	-	-	-	99,203	20,709
Copier lease		11,278	-	-	-	11,278	10,632
Dues and subscriptions		7,702	-	-	-	7,702	4,375
Fieldtrips		3,847	-	-	-	3,847	4,202
Food service		-	-	105,035	-	105,035	122,279
Instructional consultants		-	-	-	-	-	29,071
Insurance		49,878	7,125	3,563	10,688	71,254	54,371
Interest		-	-	-	-	-	36,822
Occupancy		168,000	24,000	12,000	36,000	240,000	240,000
Office expense		1,789	-	-	16,930	18,719	10,427
Other expenses		8,344	-	-	6,325	14,669	11,641
Printing and promotion		13,812	-	-	-	13,812	3,209
Professional fees		-	-	-	106,480	106,480	123,359
Recruitment		13,092	-	-	-	13,092	4,422
Repairs and maintenance		73,296	-	-	-	73,296	38,091
Staff development		33,929	-	-	-	33,929	28,583
Student testing and assessment		31,528	-	-	-	31,528	18,700
Student activities		-	-	7,189	-	7,189	15,006
Technology		57,807	-	-	-	57,807	50,984
Telephone		4,864	-	-	-	4,864	6,004
Travel and conferences		725	-	-	-	725	5,391
Transportation		-	-	197,873	-	197,873	146,817
Utilities		59,859	8,551	4,276	12,827	85,513	79,981
		2,151,451	209,771	405,671	764,472	3,531,365	2,962,770
Depreciation		38,853	5,550	2,775	8,326	55,504	50,067
Total		\$ 2,190,304	\$ 215,321	\$ 408,446	\$ 772,798	\$ 3,586,869	\$ 3,012,837

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, 2018, 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 October 31, 2018.

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.

October 31, 2018

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

October 31, 2018

The Board of Trustees
Finn Academy: An Elmira Charter School

We have audited the financial statements of Finn Academy: An Elmira Charter School (the School) for the year ended June 30, 2018 and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated August 20, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the School during the period for which there is a lack of authoritative guidance or consensus.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Collection of receivables
- Accrued expenses
- Depreciable lives and methods
- Allocation of expenses by function to program and supporting service classifications

Management's estimates of the above are based on firm concepts and reasonable assumptions of future events. We evaluated these key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Footnote Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. We evaluated all disclosures in relation to the financial statements as a whole, and determined that they are reasonable. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated consistent with the date of our report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the additional information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the additional information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Trustees and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

Lunden & McCormick, LLP