
ACADEMIC LEADERSHIP CHARTER SCHOOL

Financial Statements

For the year ended June 30, 2018

ACADEMIC LEADERSHIP CHARTER SCHOOL

Financial Statements

June 30, 2018

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Independent Auditors' Report

To the Board of Trustees of
Academic Leadership Charter School
Bronx, New York

Report on the financial statements

We have audited the accompanying financial statements of Academic Leadership Charter School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Academic Leadership Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior period financial statements

The financial statements of Academic Leadership Charter School, as of and for the year ended June 30, 2017, were audited by other auditors whose report dated October 31, 2017 expressed an unmodified opinion on those statements.

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 Academic Leadership Charter School 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 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* in considering Academic Leadership Charter School internal control over financial reporting and compliance.



New York, New York
October 31, 2018

ACADEMIC LEADERSHIP CHARTER SCHOOL**Statement of Financial Position**

June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 19,559,344	\$ 14,892,602
Grants receivable	302,401	491,566
Prepaid expenses	-	33,376
Total current assets	19,861,745	15,417,544
Property and equipment, net - Note 4	3,845,287	3,661,845
Other assets		
Restricted cash	76,124	75,488
Security deposits	-	18,727
Total Assets	\$ 23,783,156	\$ 19,173,604
 <u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 268,738	\$ 223,064
Accrued salaries and other payroll-related expenses - Note 5	440,220	359,708
Refundable advances	36,695	-
Total current liabilities	745,653	582,772
Net assets		
Undesignated	22,961,379	18,515,344
Reserve - contingency	76,124	75,488
Total unrestricted net assets	23,037,503	18,590,832
Total liabilities and net assets	\$ 23,783,156	\$ 19,173,604

The accompanying notes are an integral part of these financial statements.

ACADEMIC LEADERSHIP CHARTER SCHOOL**Statement of Activities**

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Operating revenue and other support</u>		
State and local per pupil operating revenue		
General Education	\$ 7,545,393	\$ 7,538,380
Special education	372,407	454,179
Total state and local per pupil operating revenue	7,917,800	7,992,559
Grants, contracts and other support		
Federal grants	639,732	610,268
State and local grants	38,954	39,484
Interest and other income	181,411	92,056
Total operating revenue and other support	<u>8,777,897</u>	<u>8,734,367</u>
<u>Expenses</u>		
Program expenses		
Regular education	3,737,656	3,361,256
Special education	160,419	557,260
Total program expenses	<u>3,898,075</u>	<u>3,918,516</u>
Supporting services		
Management and general	433,151	428,203
Total program and supporting services expenses	<u>4,331,226</u>	<u>4,346,719</u>
Change in net assets	4,446,671	4,387,648
Unrestricted net assets - beginning of year	<u>18,590,832</u>	<u>14,203,184</u>
Unrestricted net assets - end of year	<u><u>\$ 23,037,503</u></u>	<u><u>\$ 18,590,832</u></u>

The accompanying notes are an integral part of these financial statements.

ACADEMIC LEADERSHIP PREPARATORY CHARTER SCHOOL

Statement of Functional Expenses

For the year ended June 30, 2018

	Program expenses			Supporting services	Total 2018
	Regular education	Special education	Total programs	Management & general	
Salaries and staff					
Instructional personnel	\$ 2,622,341	\$ 64,276	\$ 2,686,617	\$ 89,052	\$ 2,775,669
Administrative staff personnel	-	-	-	143,095	143,095
Total salaries and staff	<u>2,622,341</u>	<u>64,276</u>	<u>2,686,617</u>	<u>232,147</u>	<u>2,918,764</u>
Operating expenses					
Payroll taxes and fringe benefits	584,982	55,200	640,182	76,707	716,889
Professional and consulting	-	-	-	77,440	77,440
Staff development	12,099	703	12,802	-	12,802
Textbooks and curriculum	210,198	12,210	222,408	-	222,408
Student food service	445	64	509	-	509
Communication and technology	33,789	3,188	36,977	4,431	41,408
Equipment rental and lease	58,680	5,537	64,217	7,695	71,912
Student and staff recruiting	40,602	3,831	44,433	5,324	49,757
Travel	-	-	-	5,867	5,867
Supplies and materials	26,419	2,493	28,912	3,464	32,376
Repairs and maintenance	5,219	493	5,712	684	6,396
Administrative	33,896	2,139	36,035	5,101	41,136
Non-capitalized furniture & fixtures	7,826	739	8,565	1,026	9,591
Insurance	32,798	3,095	35,893	4,301	40,194
Depreciation	68,362	6,451	74,813	8,964	83,777
Total operating expenses	<u>1,115,315</u>	<u>96,143</u>	<u>1,211,458</u>	<u>201,004</u>	<u>1,412,462</u>
Total expenses	<u>\$ 3,737,656</u>	<u>\$ 160,419</u>	<u>\$ 3,898,075</u>	<u>\$ 433,151</u>	<u>\$ 4,331,226</u>

The accompanying notes are an integral part of these financial statements.

ACADEMIC LEADERSHIP PREPARATORY CHARTER SCHOOL

Statement of Functional Expenses

For the year ended June 30, 2017

	Program expenses			Supporting Services	Total 2017
	Regular education	Special education	Total programs	Management & general	
Salaries and staff					
Instructive personnel	\$ 2,219,640	\$ 412,875	\$ 2,632,515	\$ 43,181	\$ 2,675,696
Administrative staff personnel	-	-	-	205,784	205,784
Total salaries and staff	<u>2,219,640</u>	<u>412,875</u>	<u>2,632,515</u>	<u>248,965</u>	<u>2,881,480</u>
Operating expenses					
Payroll taxes and fringe benefits	522,018	97,101	619,119	58,552	677,671
Professional and consulting	-	-	-	75,649	75,649
Staff development	10,480	609	11,089	-	11,089
Textbooks and curriculum	265,850	15,443	281,293	-	281,293
Student food service	6,853	979	7,832	-	7,832
Communication and technology	28,389	2,679	31,068	3,723	34,791
Equipment rental and lease	48,556	4,582	53,138	6,367	59,505
Student and staff recruiting	33,472	3,159	36,631	4,389	41,020
Travel	812	77	889	106	995
Supplies and materials	52,803	4,983	57,786	6,924	64,710
Repairs and maintenance	20,020	1,889	21,909	2,625	24,534
Administrative	47,768	3,014	50,782	7,188	57,970
Non-capitalized furniture & fixtures	4,215	398	4,613	553	5,166
Insurance	32,292	3,047	35,339	4,234	39,573
Facility	15,675	1,479	17,154	2,055	19,209
Depreciation	52,413	4,946	57,359	6,873	64,232
Total operating expenses	<u>1,141,616</u>	<u>144,385</u>	<u>1,286,001</u>	<u>179,238</u>	<u>1,465,239</u>
Total expenses	<u>\$ 3,361,256</u>	<u>\$ 557,260</u>	<u>\$ 3,918,516</u>	<u>\$ 428,203</u>	<u>\$ 4,346,719</u>

The accompanying notes are an integral part of these financial statements.

ACADEMIC LEADERSHIP PREPARATORY CHARTER SCHOOL**Statement of Cash Flows**

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 4,446,671	\$ 4,387,648
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	83,777	64,232
Changes in operating assets and liabilities		
Grants receivable	189,165	(87,879)
Prepaid expenses	33,376	(772)
Accounts payable and accrued expenses	45,674	30,352
Accrued payroll and benefits	80,512	60,748
Security deposits	18,727	-
Refundable advances	36,695	(71,114)
Net cash provided by operating activities	<u>4,934,597</u>	<u>4,383,215</u>
Cash flows used in investing activities		
Restricted cash	(636)	(118)
Acquisition of fixed assets	<u>(267,219)</u>	<u>(103,684)</u>
Net cash used in investing activities	<u>(267,855)</u>	<u>(103,802)</u>
Net increase in cash and cash equivalents	4,666,742	4,279,413
Cash and cash equivalents - beginning of year	<u>14,892,602</u>	<u>10,613,189</u>
Cash and cash equivalents - end of year	<u><u>\$ 19,559,344</u></u>	<u><u>\$ 14,892,602</u></u>

The accompanying notes are an integral part of these financial statements.

ACADEMIC LEADERSHIP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 1 Organization

Academic Leadership Charter School (the “School”), a 501(c)(3) tax-exempt organization, is a public charter school located in Bronx, New York. The School was granted a provisional charter on February 10, 2009, which was renewed on February 11, 2014 for an additional five years. The School served from Pre-K through seventh grade in 2015 and added eighth grade in 2016. The School provides a broad-based education for all students, focusing on developing good character as well as comprehension and analytical skills across all disciplines, ranging from the fundamentals of reading and mathematics to fine arts, physical education, drama, and dance.

Note 2 Summary of significant accounting policies

Basis of Presentation and use of estimates. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain accounts relating to the prior year have been reclassified to conform to the current year’s presentation. The reclassifications had no effect on 2017 net assets.

Net asset presentation. The classification of the School’s net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position, and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

- Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School currently does not possess any permanently restricted net assets.

ACADEMIC LEADERSHIP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

- Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. The School has no temporarily restricted net assets at June 30, 2018.
- Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

Cash and cash equivalents. The School considers all short-term, highly liquid investments, such as money market funds, to be cash equivalents.

Revenue recognition. The School recognizes revenue from the state and local governments based on the School's charter status and the number of students enrolled. Such revenue is recorded when services are performed, in accordance with the charter agreement. The New York State Department of Education mandates the rate per pupil. Such revenue is recognized ratably over the related school year in which it is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the students during the applicable school year. Funds received in advance or any unspent funds for which qualifying expenditures have not been incurred are recorded as refundable advances. Any unspent amounts might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Grants receivable. Grants receivable are recorded at net realizable value and do not bear interest. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectability. Grants receivable are \$302,401 and \$491,566 at June 30, 2018 and 2017, respectively. There is no allowance recorded at June 30, 2018, as all amounts are deemed collectible.

ACADEMIC LEADERSHIP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

Property and equipment. Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Items with an acquisition cost of less than \$500 or a useful life of less than one year are expensed in the year purchased. Depreciation is computed using the straight-line method over estimated useful lives of the respective asset. The estimated depreciable lives of the different classes of property are as follows:

<u>Asset</u>	<u>Useful Life</u>
Furniture and fixtures	7 years
Computer and office equipment	3 years

Restricted cash. Under the provisions of its charter, the School established an escrow amount to pay for legal and audit expenses that would be associated with dissolution, should such event occur.

Refundable advances. 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.

Donated goods and services. The School receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying statement of activities, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

The School is located in two New York City Department of Education facility's and utilizes a combined total of approximately 156,846 square feet for both facilities at no charge. In addition, the School received donated transportation and food service services from the local district. The School was unable to determine a value for these services.

Functional allocation of expenses. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable. Management and general expense includes expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

ACADEMIC LEADERSHIP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

Income taxes. The School is tax-exempt under Section 501 (c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in IRC sections 509(A)(1) and 170(B)(1)(A)(II).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that, as of June 30, 2018, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the accompanying financial statements.

The School is no longer subject to income tax examination by federal, state or local tax authorities for years before June 30, 2014.

Subsequent events. Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 23, 2018, the date that the financial statements were available to be issued.

Note 3 Retirement plan

The School offers a 401(k) plan for all qualifying employees who are 21 years or older. Employees are eligible for the plan after three months of employment. Participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, up to IRS limits for each calendar year. For employees that have completed one year of eligibility service, the School matches 100% of an employee's contribution up to 3% of the employee's annual compensation and 50% of an employee's contributions that are between 3% to 5% of an employee's annual compensation. For the years ended June 30, 2018 and 2017, the School's matching contribution were \$77,000 and \$46,771 respectively. 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

ACADEMIC LEADERSHIP CHARTER SCHOOL**Notes to Financial Statements**

June 30, 2018

Note 4 Property, plant and equipment

Property, plant and equipment consist of the following as of June 30,:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,259,800	\$ 3,259,800
Construction-in-progress	464,696	306,419
Furniture and fixtures	205,048	198,383
Equipment	670,343	568,065
Software	<u>10,288</u>	<u>10,289</u>
	4,610,175	4,342,956
Less, accumulated depreciation and amortization	<u>(764,888)</u>	<u>(681,111)</u>
	<u>\$ 3,845,287</u>	<u>\$ 3,661,845</u>

Land relates to a parcel of land on 356-362 East 139th Street in the Bronx, New York, which will be used to construct the School's future educational facility.

Depreciation expense for the years ended June 30, 2018 and 2017 were \$83,777 and \$64,232, respectively.

Construction-in-progress at June 30, 2018 consists of costs incurred for architecture, engineering, and professional fees related to the construction of the School's future education facility that is not yet in service. Construction-in-progress is stated at cost. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into use.

Note 5 Accrued salaries and other payroll-related expenses

Accrued salaries and other payroll-related expenses consist of amounts earned by the staff during the school year which are paid out over the summer months. As of June 30, 2018 and 2017, total accrued salaries and other payroll-related expenses amounted to \$440,220 and \$359,708, respectively.

ACADEMIC LEADERSHIP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018

Note 6 Concentrations of risk

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 management of the school believes it is not exposed to significant credit risk on cash and cash equivalents.

The School received approximately 90% and 92% of its operating revenue, which is subject to specific requirements, from per pupil funding from the New York City Department of Education during the year ended June 30, 2018 and 2017, respectively. Additionally, the School's grants receivable consists of approximately 68% and 45%, respectively, from the New York State Department of Education.

Note 7 Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain 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 grants 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.

Note 8 School facility

The School shares space with a New York City public school. The School is not responsible for services other than the security needed after public school hours.

Note 9 Support services

The School entered into two support services agreements with two third party service providers to provide assistance with accounting and bookkeeping, financial reporting and budgeting, grant financial management, and payroll and benefits administration. These agreements expire annually on June 30, but are subject to annual renewal. For the years ended June 30, 2018 and 2017, fees under the agreements amounted to \$44,546 and \$46,260, respectively.

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

To the Board of Trustees of
Academic Leadership Charter School
Bronx, New York

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 Academic Leadership Charter School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses 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 Academic Leadership 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 Academic Leadership Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Academic Leadership 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 Academic Leadership 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.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "NChang, LLP". The signature is written in a cursive, slightly slanted style.

New York, New York
October 31, 2018