

**SOUTH BUFFALO CHARTER SCHOOL
SINGLE AUDIT REPORTING PACKAGE**

JUNE 30, 2017

Table of Contents

June 30, 2017

Financial Statements

Independent Auditors' Report

Consolidated Financial Statements

Notes to Consolidated Financial Statements

Additional Information

Consolidated Schedule of Expenses

Consolidating Balance Sheets

Consolidating Statements of Activities

Schedule of Expenditures of Federal Awards and Related Notes

Reports on Federal Award Programs

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*

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Schedule of Findings and Questioned Costs

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
South Buffalo Charter School

We have audited the accompanying consolidated balance sheets of South Buffalo Charter School and Affiliate (the Organization) as of June 30, 2017 and 2016, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2017 and 2016, 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 consolidated financial statements as a whole. The accompanying additional information as listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The accompanying additional information, including the schedule of expenditures of federal awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 September 22, 2017 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.


September 22, 2017

SOUTH BUFFALO CHARTER SCHOOL

Consolidated Balance Sheets

| June 30, | 2017 | 2016 |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$ 8,703,927 | \$ 4,165,235 |
| Receivables (Note 2) | 908,324 | 4,006,801 |
| Prepaid expenses | 271,579 | 274,983 |
| | <u>9,883,830</u> | <u>8,447,019</u> |
| Property and equipment, net (Note 3) | <u>22,049,272</u> | <u>23,208,878</u> |
| | <u>\$ 31,933,102</u> | <u>\$ 31,655,897</u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Current portion of long-term debt (Note 5) | \$ 452,372 | \$ 431,648 |
| Accounts payable and accrued expenses | 1,502,422 | 1,622,046 |
| Deferred income taxes (Note 7) | - | 501,000 |
| | <u>1,954,794</u> | <u>2,554,694</u> |
| Long-term debt (Note 5) | 11,533,820 | 11,983,537 |
| Net assets: | | |
| Unrestricted | <u>18,444,488</u> | <u>17,117,666</u> |
| | <u>\$ 31,933,102</u> | <u>\$ 31,655,897</u> |

SOUTH BUFFALO CHARTER SCHOOL

Consolidated Statements of Activities

| For the years ended June 30, | 2017 | 2016 |
|---|-------------------|-------------------|
| Support and revenue: | | |
| Enrollment fees: | | |
| Revenue-resident student enrollment | \$ 11,200,295 | \$ 10,953,356 |
| Revenue-students with disabilities | 620,053 | 621,191 |
| Revenue-additional state aid | 389,181 | 195,764 |
| Federal grants | 1,144,246 | 1,138,070 |
| State grants | 20,407 | 20,491 |
| Food service | 16,327 | 26,281 |
| Other income | 133,503 | 65,453 |
| Total support and revenue | 13,524,012 | 13,020,606 |
| Expenses: | | |
| Program expenses: | | |
| Regular education | 6,685,970 | 6,536,907 |
| Special education | 1,329,044 | 1,424,765 |
| Other programs | 3,561,954 | 3,448,904 |
| Total program expenses | 11,576,968 | 11,410,576 |
| Supporting services: | | |
| Management and general | 852,819 | 871,831 |
| Total expenses | 12,429,787 | 12,282,407 |
| Other items: | | |
| Tax credits and adjustments, net (Note 7) | 232,597 | 330,980 |
| Change in net assets | 1,326,822 | 1,069,179 |
| Net assets - beginning | 17,117,666 | 16,048,487 |
| Net assets - ending | \$ 18,444,488 | \$ 17,117,666 |

See accompanying notes.

SOUTH BUFFALO CHARTER SCHOOL

Consolidated Statements of Cash Flows

| For the years ended June 30, | 2017 | 2016 |
|--|---------------------|---------------------|
| Operating activities: | | |
| Cash received from enrollment fees | \$ 11,902,273 | \$ 11,549,048 |
| Cash received from federal and state grants | 1,096,728 | 1,186,874 |
| Cash received from other sources | 3,332,963 | 68,404 |
| Payments to employees for services and benefits | (7,923,167) | (7,542,361) |
| Payments to vendors and suppliers | (2,650,837) | (2,927,613) |
| Interest paid | (645,419) | (666,312) |
| Net operating activities | 5,112,541 | 1,668,040 |
| Investing activities: | | |
| Property and equipment expenditures | (144,856) | (523,189) |
| Financing activities: | | |
| Payments on long-term debt | (428,993) | (336,527) |
| Net change in cash | 4,538,692 | 808,324 |
| Cash - beginning | 4,165,235 | 3,356,911 |
| Cash - ending | \$ 8,703,927 | \$ 4,165,235 |
| Reconciliation of change in net assets to net cash flows from operating activities: | | |
| Change in net assets | \$ 1,326,822 | \$ 1,069,179 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 1,191,143 | 1,224,561 |
| Deferred income taxes | (501,000) | (234,000) |
| Loss on disposal of property and equipment | 8,703 | 302 |
| Changes in operating assets and liabilities: | | |
| Receivables | 3,098,477 | (284,691) |
| Prepaid expenses | 3,404 | (16,579) |
| Accounts payable and accrued expenses | (15,008) | (80,232) |
| Deferred revenue | - | (10,500) |
| Net operating activities | \$ 5,112,541 | \$ 1,668,040 |

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

The consolidated financial statements of South Buffalo Charter School (the Organization) include the accounts of South Buffalo Charter School (the School) and 154 South Ogden, LLC (the LLC).

The School operates a charter school in the City of Buffalo, New York (the City) pursuant to its Charter Agreement with the Education Department of the State of New York. The School has been chartered through 2020, at which time it must apply to renew its charter for another term. The School currently offers classes from kindergarten through grade 8.

The School seeks to provide equitable opportunities for all students to acquire an education that links character education with rigorous academics, technology, and careers to produce students who are prepared for success in the 21st century. Students enrolled reside primarily in the City School District.

The School is the single member of the LLC, a limited liability company formed in 2012 to acquire land and construct a state of the art educational facility. All significant intercompany transactions and balances have been eliminated.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through September 22, 2017, the date the financial statements were available to be issued.

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

Property held for sale is reported at the lower of its carrying amount or fair value less cost to sell and is not depreciated while it is classified as held for sale.

Enrollment Fees:

The School is reimbursed based on the approved operating expense per pupil of the public-school district in which the student 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 School residing in the district. The School's enrollment fees are received primarily from the Board of Education for the City School District.

Grants:

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

Grant awards are accounted for as exchange transactions and revenue is deferred until the related services are performed.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under §501(a) of the Internal Revenue Code. The LLC has elected to be taxed as a corporation (Note 7).

The Organization believes it is no longer subject to the examination by Federal and State taxing authorities for years prior to 2014.

Cost Allocation:

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

Transportation:

The City School District provides the School with certain transportation services without cost. The value of these services 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.

Reclassifications:

The financial statements for the year ended June 30, 2016 have been reclassified to conform with the presentation adopted for 2017.

2. Receivables:

| | 2017 | 2016 |
|---------------------------------|-------------------|---------------------|
| Grants | \$ 259,853 | \$ 191,928 |
| Enrollment fees | 402,219 | 224,686 |
| Refundable tax credits (Note 7) | 53,965 | 3,517,795 |
| Other | 192,287 | 72,392 |
| | <u>\$ 908,324</u> | <u>\$ 4,006,801</u> |

In July 2017 and 2016, all New York State charter schools serving students in the fiscal 2017 and 2016 school years 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 \$389,181 and \$195,764 is included as enrollment fees receivable on the accompanying combined balances sheets as of June 30, 2017 and 2016, respectively.

3. Property and Equipment:

| | 2017 | 2016 |
|-------------------------------|----------------------|----------------------|
| Land | \$ 538,624 | \$ 538,624 |
| Buildings and improvements | 18,019,255 | 17,987,865 |
| Furniture and equipment | 6,600,317 | 6,992,949 |
| | <u>25,158,196</u> | <u>25,519,438</u> |
| Less accumulated depreciation | 3,608,924 | 2,810,560 |
| | <u>21,549,272</u> | <u>22,708,878</u> |
| Property held for sale | 500,000 | 500,000 |
| | <u>\$ 22,049,272</u> | <u>\$ 23,208,878</u> |

4. Line of Credit:

The School has available a \$500,000 demand line of credit from a financial institution, with interest payable at prime plus 0.5%, secured by essentially all of the School's assets, and guaranteed by the LLC. There were no outstanding amounts under this line at June 30, 2017 and 2016.

5. Long-Term Debt:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Bank mortgage note payable, monthly installments of \$89,534 including interest at 4.88%, with balloon payment of \$8,730,633 due October 2023 (expected to be refinanced), secured by essentially all assets of the Organization. | \$ 12,176,208 | \$ 12,635,604 |
| Less unamortized debt issuance costs | 190,016 | 220,419 |
| | <u>11,986,192</u> | <u>12,415,185</u> |
| Less current portion | 452,372 | 429,114 |
| | <u>\$ 11,533,820</u> | <u>\$ 11,986,071</u> |

Aggregate maturities of net long-term debt subsequent to June 30, 2017 are:

| | Principal | Unamortized Debt Issuance Costs |
|------------|----------------------|--|
| 2018 | \$ 482,775 | \$ 30,403 |
| 2019 | 507,211 | 30,403 |
| 2020 | 531,396 | 30,403 |
| 2021 | 559,780 | 30,403 |
| 2022 | 588,114 | 30,403 |
| Thereafter | 9,506,932 | 38,001 |
| | \$ 12,176,208 | \$ 190,016 |

Debt issuance costs are amortized as interest expense over the remaining term of the mortgage note. Amortization of debt issuance costs totaled \$30,403 and \$27,869 for the years ended June 30, 2017 and 2016.

Interest expense totaled \$645,419 and \$666,312 for the years ended June 30, 2017 and 2016.

The debt agreement requires compliance with certain covenants beginning in fiscal 2017.

6. Retirement Plans:

The School maintains a 403(b) profit sharing plan covering essentially all full-time employees (as defined). The plan requires certain minimum employer contributions based on salaries and employee deferrals. Expenses related to this plan for the years ended June 30, 2017 and 2016 were \$34,943 and \$25,965.

The School participates in the New York State Teachers' Retirement System (TRS), which is a cost-sharing multiple employer public employee retirement system. TRS offers a wide range of plans and benefits for the School's collectively bargained teacher group which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

TRS is administered by the New York State Teachers' Retirement Board and provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained from the New York State Teachers' Retirement System at www.nystrs.org.

No employee contributions are required for those whose service began prior to July 1976. TRS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined from July 1976 through December 2009. Participants whose service began on or after January 1, 2010 through March 31, 2012 are required to contribute 3.5% of compensation throughout their active membership in TRS. Participants whose service began on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation.

Pursuant to Article 11 of Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate is 11.72% of the annual covered payroll for the year ended June 30, 2017, and 13.26% for the year ended June 30, 2016.

The required contributions for the years ended June 30, 2017 and 2016 were \$523,503 and \$580,961.

7. Tax Credits:

Effective July 1, 2014, the LLC elected to be taxed as a corporation to obtain refundable New York State brownfield redevelopment tax credits totaling \$3,571,760 through June 30, 2017. New York State Department of Taxation and Finance audited such tax credits totaling \$3,517,795, and approved refunding \$3,198,428, which was received in fiscal 2017. The refundable credits are subject to federal income taxes when received. The LLC also has available \$132,000 of nonrefundable solar equipment tax credits which can be applied to reduce future federal income taxes. Transactions related to the tax credits are presented in the statements of activities net of applicable taxes and credits (deferred and otherwise).

The LLC recognizes deferred tax assets and liabilities primarily for the expected future tax consequences of using different methods of accounting for credit revenues and depreciation, and the recognition of net operating loss carryforwards to the extent realization of such losses are more likely than not. Based on future projected taxable income of the LLC, in 2017 management recorded an allowance against the deferred taxes related to the nonrefundable tax credits and net operating loss carryforwards. Based on future taxable income, the amount of deferred taxes considered to be realizable may be adjusted.

Deferred income taxes on the balance sheets at June 30, 2017 and 2016 are as follows:

| | <u>2017</u> | | <u>2016</u> |
|-------------|--------------|-----------|------------------|
| Assets | \$ 1,176,000 | \$ | 1,410,000 |
| Liabilities | (677,000) | | (1,911,000) |
| Allowance | (499,000) | | - |
| | <u>\$ -</u> | <u>\$</u> | <u>(501,000)</u> |

8. Health Insurance:

The School participates in the NY44 Health Benefits Plan Trust (the Plan). The Plan has been established to administer a health insurance program to lower the costs of such coverage to the 57 participating members as of June 30, 2016 (the most recent information available).

The School has transferred all risk to the Plan. Plan members pay monthly premium equivalents based upon a pro-rata share of expenditures. All funds received are pooled and administered as a common fund. Refunds are not made nor additional assessments charged other than the annual premium equivalents. If the Plan's asset were to be exhausted, members would be equally responsible for the remaining liabilities.

The Plan has published its own financial report for the year ended June 30, 2016, which can be obtained from Erie 1 BOCES, 355 Harlem Road, West Seneca, New York, 14224.

9. Contingencies:

The School may be subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, the outcome of any claims is not expected to have a material adverse effect upon the financial position of the Organization.

10. Cash Flows Information:

Noncash investing and financing activities excluded from the statements of cash flows include accounts payable incurred for building additions of \$104,616 at June 30, 2016.

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Consolidated Schedule of Expenses

For the year ended June 30, 2017 (with summarized comparative totals for 2016)

| | 2017 | | | | | 2016 | |
|--------------------------------|---------------------------|----------------------|----------------------|-------------------|---------------------------|---------------|---------------|
| | Number of positions | Regular Education | Special Education | Other Programs | Management and General | Total | Total |
| Administrative staff personnel | 15.0 | \$ 471,824 | \$ 62,910 | \$ 167,760 | \$ 346,003 | \$ 1,048,497 | |
| Instructional personnel | 84.0 | 2,664,059 | 416,259 | 1,082,274 | - | 4,162,592 | |
| Non-instructional personnel | 12.0 | 283,144 | 37,753 | 99,100 | 51,910 | 471,907 | |
| Salaries | | 3,419,027 | 516,922 | 1,349,134 | 397,913 | \$ 5,682,996 | \$ 5,584,866 |
| Employee benefits and taxes | | 974,941 | 147,401 | 384,708 | 113,466 | 1,620,516 | 1,408,633 |
| Retirement | | 335,974 | 50,796 | 132,574 | 39,102 | 558,446 | 606,926 |
| Professional fees | | - | - | - | 48,740 | 48,740 | 127,120 |
| Other contracted services | | 116,785 | 335,770 | 46,083 | 13,592 | 512,230 | 497,534 |
| Property taxes | | 125,853 | 19,028 | 49,661 | 14,647 | 209,189 | 223,595 |
| Repairs and maintenance | | 84,502 | 12,776 | 33,344 | 9,834 | 140,456 | 205,175 |
| Insurance | | 54,072 | 8,175 | 21,337 | 6,293 | 89,877 | 108,789 |
| Utilities | | 101,410 | 15,332 | 40,016 | 11,802 | 168,560 | 198,693 |
| Supplies and materials | | 120,870 | 18,274 | 47,695 | - | 186,839 | 181,694 |
| Equipment and furnishings | | 1,843 | 279 | 727 | 215 | 3,064 | 3,940 |
| Staff development | | 25,429 | 3,845 | 10,034 | 2,959 | 42,267 | 83,391 |
| Recruitment | | - | - | - | 7,676 | 7,676 | 8,306 |
| Technology | | 146,136 | 22,094 | 57,665 | 17,008 | 242,903 | 125,775 |
| Food service | | - | - | 725,115 | - | 725,115 | 687,313 |
| Student services | | - | - | 198,564 | - | 198,564 | 180,659 |
| Office expense | | 55,669 | 8,417 | 21,967 | 6,479 | 92,532 | 92,287 |
| Interest | | 388,284 | 58,733 | 153,222 | 45,180 | 645,419 | 666,312 |
| Other expenses | | 18,581 | 2,810 | 7,330 | 34,534 | 63,255 | 66,838 |
| | | 5,969,376 | 1,220,652 | 3,279,176 | 769,440 | 11,238,644 | 11,057,846 |
| Depreciation | | 716,594 | 108,392 | 282,778 | 83,379 | 1,191,143 | 1,224,561 |
| Total | | \$ 6,685,970 | \$ 1,329,044 | \$ 3,561,954 | \$ 852,819 | \$ 12,429,787 | \$ 12,282,407 |

SOUTH BUFFALO CHARTER SCHOOL

**Additional Information
Consolidating Balance Sheets**

| June 30, | 2017 | | | Consolidated |
|---------------------------------------|----------------------|----------------------|------------------------|----------------------|
| | School | LLC | Eliminations | Totals |
| Assets | | | | |
| Current Assets: | | | | |
| Cash | \$ 5,450,573 | \$ 3,253,354 | \$ - | \$ 8,703,927 |
| Receivables | 854,359 | 53,965 | - | 908,324 |
| Prepaid expenses | 271,579 | - | - | 271,579 |
| | <u>6,576,511</u> | <u>3,307,319</u> | - | <u>9,883,830</u> |
| Property and equipment, net | 619,761 | 21,429,511 | - | 22,049,272 |
| Due from affiliate | 13,181,197 | - | (13,181,197) | - |
| | <u>\$ 20,377,469</u> | <u>\$ 24,736,830</u> | <u>\$ (13,181,197)</u> | <u>\$ 31,933,102</u> |
| Liabilities and Net Assets | | | | |
| Current Liabilities: | | | | |
| Current portion of long-term debt | \$ - | \$ 452,372 | \$ - | \$ 452,372 |
| Accounts payable and accrued expenses | 1,500,121 | 2,301 | - | 1,502,422 |
| Deferred income taxes | - | - | - | - |
| | <u>1,500,121</u> | <u>454,673</u> | - | <u>1,954,794</u> |
| Due to affiliate | - | 13,181,197 | (13,181,197) | - |
| Long-term debt | - | 11,533,820 | - | 11,533,820 |
| Net assets: | | | | |
| Unrestricted | <u>18,877,348</u> | <u>(432,860)</u> | - | <u>18,444,488</u> |
| | <u>\$ 20,377,469</u> | <u>\$ 24,736,830</u> | <u>\$ (13,181,197)</u> | <u>\$ 31,933,102</u> |

2016

| School | LLC | Eliminations | Consolidated Totals |
|----------------------|----------------------|------------------------|------------------------|
| \$ 4,110,884 | \$ 54,351 | \$ - | \$ 4,165,235 |
| 489,006 | 3,517,795 | - | 4,006,801 |
| 274,983 | - | - | 274,983 |
| 4,874,873 | 3,572,146 | - | 8,447,019 |
| 669,195 | 22,539,683 | - | 23,208,878 |
| 12,428,359 | - | (12,428,359) | - |
| <u>\$ 17,972,427</u> | <u>\$ 26,111,829</u> | <u>\$ (12,428,359)</u> | <u>\$ 31,655,897</u> |
| | | | |
| \$ - | \$ 431,648 | \$ - | \$ 431,648 |
| 1,515,470 | 106,576 | - | 1,622,046 |
| - | 501,000 | - | 501,000 |
| 1,515,470 | 1,039,224 | - | 2,554,694 |
| - | 12,428,359 | (12,428,359) | - |
| - | 11,983,537 | - | 11,983,537 |
| 16,456,957 | 660,709 | - | 17,117,666 |
| <u>\$ 17,972,427</u> | <u>\$ 26,111,829</u> | <u>\$ (12,428,359)</u> | <u>\$ 31,655,897</u> |

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Consolidating Statements of Activities

For the years ended June 30,

2017

| | School | LLC | Eliminations | Consolidated Totals |
|-------------------------------------|-------------------|--------------------|--------------------|------------------------|
| Support and revenue: | | | | |
| Enrollment fees: | | | | |
| Revenue-resident student enrollment | \$ 11,200,295 | \$ - | \$ - | \$ 11,200,295 |
| Revenue-students with disabilities | 620,053 | - | - | 620,053 |
| Revenue-additional state aid | 389,181 | - | - | 389,181 |
| Federal grants | 1,144,246 | - | - | 1,144,246 |
| State grants | 20,407 | - | - | 20,407 |
| Food service | 16,327 | - | - | 16,327 |
| Rental income | - | 1,115,840 | (1,115,840) | - |
| Interest income | 623,386 | - | (623,386) | - |
| Other income | 133,503 | - | - | 133,503 |
| Total support and revenue | 14,147,398 | 1,115,840 | (1,739,226) | 13,524,012 |
| Expenses: | | | | |
| Program expenses: | | | | |
| Regular education | 6,263,657 | 1,468,658 | (1,046,345) | 6,685,970 |
| Special education | 1,265,114 | 222,154 | (158,224) | 1,329,044 |
| Other programs | 3,395,292 | 579,553 | (412,891) | 3,561,954 |
| Total program expenses | 10,924,063 | 2,270,365 | (1,617,460) | 11,576,968 |
| Supporting services: | | | | |
| Management and general | 802,944 | 171,641 | (121,766) | 852,819 |
| Total expenses | 11,727,007 | 2,442,006 | (1,739,226) | 12,429,787 |
| Other items: | | | | |
| Tax credits, net | - | 232,597 | - | 232,597 |
| Change in net assets | 2,420,391 | (1,093,569) | - | 1,326,822 |
| Net assets - beginning | 16,456,957 | 660,709 | - | 17,117,666 |
| Net assets - ending | \$ 18,877,348 | \$ (432,860) | \$ - | \$ 18,444,488 |

2016

| School | LLC | Eliminations | Consolidated Totals |
|----------------------|-------------------|--------------------|----------------------|
| \$ 10,953,356 | \$ - | \$ - | \$ 10,953,356 |
| 621,191 | - | - | 621,191 |
| 195,764 | - | - | 195,764 |
| 1,138,070 | - | - | 1,138,070 |
| 20,491 | - | - | 20,491 |
| 26,281 | - | - | 26,281 |
| - | 1,108,580 | (1,108,580) | - |
| 584,355 | - | (584,355) | - |
| 65,453 | - | - | 65,453 |
| <u>13,604,961</u> | <u>1,108,580</u> | <u>(1,692,935)</u> | <u>13,020,606</u> |
| 6,094,891 | 1,463,431 | (1,021,415) | 6,536,907 |
| 1,357,864 | 221,499 | (154,598) | 1,424,765 |
| <u>3,274,324</u> | <u>578,004</u> | <u>(403,424)</u> | <u>3,448,904</u> |
| <u>10,727,079</u> | <u>2,262,934</u> | <u>(1,579,437)</u> | <u>11,410,576</u> |
| 821,215 | 164,114 | (113,498) | 871,831 |
| <u>11,548,294</u> | <u>2,427,048</u> | <u>(1,692,935)</u> | <u>12,282,407</u> |
| - | 330,980 | - | 330,980 |
| 2,056,667 | (987,488) | - | 1,069,179 |
| <u>14,400,290</u> | <u>1,648,197</u> | <u>-</u> | <u>16,048,487</u> |
| <u>\$ 16,456,957</u> | <u>\$ 660,709</u> | <u>\$ -</u> | <u>\$ 17,117,666</u> |

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Grantor Number</u> | <u>Expenditures</u> |
|--|--------------------|-----------------------|---------------------|
| <u>U.S. Department of Education</u> | | | |
| Passed through New York State Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-17-4035 | \$ 366,828 |
| Supporting Effective Instruction State Grants | 84.367 | 0147-17-4035 | 32,765 |
| Total New York State Department of Education | | | 399,593 |
| Passed through Charter School for Applied Technologies: | | | |
| English Language Acquisition State Grants | 84.365 | N/A | 1,079 |
| Total U.S. Department of Education | | | 400,672 |
| <u>U.S. Department of Agriculture</u> | | | |
| Passed through the New York State Department of Education: | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | N/A | 241,848 |
| National School Lunch Program | 10.555 | N/A | 454,167 |
| Total Child Nutrition Cluster | | | 696,015 |
| Passed through the New York State Office Of General Services: | | | |
| Child Nutrition Discretionary Grants Limited Availability | 10.579 | N/A | 47,559 |
| Total U.S. Department of Agriculture | | | 743,574 |
| Total Expenditures of Federal Awards | | | \$ 1,144,246 |

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs administered by South Buffalo Charter School and Affiliates (the Organization), an entity as defined in Note 1 to the Organization's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the schedule of expenditures of federal awards.

Basis of Accounting

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable programs and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Organization's financial reporting system. The federal expenditures are recorded on the accrual basis.

Indirect Costs

The Organization typically does not allocate indirect costs to Federal programs and as such the 10% de minimis indirect cost rate permitted by the Uniform Guidance is not applicable.

Non-Monetary Federal Program

The School is the recipient of a federal award program that does not result in cash receipts or disbursements, termed a "non-monetary program." During the year ended June 30, 2017, the School used \$47,559 worth of commodities under the Child Nutrition Discretionary Grants Limited Availability program (CFDA Number 10.579).

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
South Buffalo 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 consolidated financial statements of South Buffalo Charter School and Affiliate (the Organization), which comprise the consolidated balance sheet as of June 30, 2017, and the related consolidated 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 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization's consolidated 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 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.


September 22, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Trustees
South Buffalo Charter School

Report on Compliance for Each Major Federal Program

We have audited South Buffalo Charter School and Affiliate's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


September 22, 2017

Schedule of Findings and Questioned Costs

For the year ended June 30, 2017

Section I. Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to consolidated financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? No

Identification of major programs:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA#</u> | <u>Amount</u> |
|---|--------------|-------------------|
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | \$ 241,848 |
| National School Lunch Program | 10.555 | 454,167 |
| | | <u>\$ 696,015</u> |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Section II. Financial Statement Findings

No findings were reported.

Section III. Federal Award Findings and Questioned Costs

No findings were reported.