

DISCOVERY CHARTER SCHOOL

ROCHESTER, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER CONSOLIDATING FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017
(With Comparative Totals for 2016)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities and Changes in Net Assets	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9
 <u>OTHER CONSOLIDATING FINANCIAL INFORMATION</u>	
Independent Auditor's Report on Consolidating Financial Information	17
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities and Changes in Net Assets	19
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Schedule of Findings and Responses	23

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Discovery Charter School

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Discovery Charter School which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Discovery Charter School as of June 30, 2017, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Discovery Charter School's June 30, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 on our consideration of Discovery Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Discovery Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
September 21, 2017

DISCOVERY CHARTER SCHOOL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With Comparative Totals for 2016)

<u>ASSETS</u>	June 30,	
	2017	2016
<u>CURRENT ASSETS</u>		
Cash	\$ 917,184	\$ 804,201
Cash in escrow	75,000	75,000
Grants and other receivables	190,834	246,878
Prepaid expenses	2,348	2,285
TOTAL CURRENT ASSETS	1,185,366	1,128,364
<u>PROPERTY AND EQUIPMENT, net</u>	245,678	255,508
TOTAL ASSETS	\$ 1,431,044	\$ 1,383,872
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 115,367	\$ 93,758
Accrued payroll and benefits	438,230	370,306
Deferred revenue	25,000	-
TOTAL CURRENT LIABILITIES	578,597	464,064
<u>DEFERRED LEASE LIABILITY</u>	8,807	-
<u>NET ASSETS</u>		
Unrestricted	666,638	777,174
Temporarily restricted	177,002	142,634
TOTAL NET ASSETS	843,640	919,808
TOTAL LIABILITIES AND NET ASSETS	\$ 1,431,044	\$ 1,383,872

The accompanying notes are an integral part of the consolidated financial statements.

DISCOVERY CHARTER SCHOOL

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Year ended June 30,			2016
	2017		Total	
	Unrestricted	Temporarily restricted		
Operating revenue and support:				
Public school districts:				
Per pupil allocation income	\$ 3,624,309	\$ -	\$ 3,624,309	\$ 3,531,704
District textbooks in-kind	16,300	-	16,300	16,252
Students with disabilities	421,016	-	421,016	481,458
Total revenue from public schools	4,061,625	-	4,061,625	4,029,414
Federal and State grants	369,749	157,452	527,201	475,763
Private grants	86,845	9,550	96,395	113,318
Donated supplies, materials and services	1,856	-	1,856	777
Rental income	-	-	-	97,300
Net assets released from restriction	132,634	(132,634)	-	-
Total other revenue and support	591,084	34,368	625,452	687,158
TOTAL OPERATING REVENUE AND SUPPORT	4,652,709	34,368	4,687,077	4,716,572
Expenses:				
Program services:				
Regular education	3,553,167	-	3,553,167	3,286,490
Special education	562,942	-	562,942	471,627
Supporting services:				
Management and general	647,136	-	647,136	812,850
TOTAL EXPENSES	4,763,245	-	4,763,245	4,570,967
CHANGE IN NET ASSETS	(110,536)	34,368	(76,168)	145,605
Net assets at beginning of year	777,174	142,634	919,808	774,203
NET ASSETS AT END OF YEAR	<u>\$ 666,638</u>	<u>\$ 177,002</u>	<u>\$ 843,640</u>	<u>\$ 919,808</u>

The accompanying notes are an integral part of the consolidated financial statements.

DISCOVERY CHARTER SCHOOL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	No. of positions		Year ended June 30,				2016	
			2017			Supporting Services		
	June 30,		Regular education	Special education	Sub-total	Management and general	Total	Total
	2017	2016						
Personnel service costs:								
Administrative staff	8	8	\$ 143,600	\$ -	\$ 143,600	\$ 329,468	\$ 473,068	\$ 487,964
Instructional personnel	46	37	1,744,977	381,019	2,125,996	-	2,125,996	1,717,520
Non-instructional personnel	2	2	-	-	-	33,116	33,116	33,616
Total salaries and wages			1,888,577	381,019	2,269,596	362,584	2,632,180	2,239,100
Payroll taxes and employee benefits			509,497	118,116	627,613	93,764	721,377	583,946
Professional development			14,692	4,897	19,589	-	19,589	15,899
Legal fees			-	-	-	12,873	12,873	18,417
Audit and accounting fees			-	-	-	27,522	27,522	13,500
Professional fees - education			103,650	21,250	124,900	-	124,900	189,000
Professional fees - other			20,886	6,000	26,886	4,948	31,834	61,866
Curriculum/classroom expenses			73,579	29,270	102,849	-	102,849	107,350
Supplies/ materials			23,621	-	23,621	20,963	44,584	36,678
Food service fees			269,082	-	269,082	-	269,082	263,158
Student transportation services			45,891	-	45,891	-	45,891	46,995
Travel/conferences			9,560	2,390	11,950	-	11,950	17,034
Postage, printing and copying			12,170	-	12,170	5,232	17,402	15,547
Insurance			19,471	-	19,471	6,490	25,961	23,966
Information technology			49,195	-	49,195	28,054	77,249	75,445
Leased equipment			2,002	-	2,002	-	2,002	2,002
Non-capitalized equipment/furnishings			7,613	-	7,613	1,903	9,516	12,788
Repairs and maintenance			1,772	-	1,772	1,773	3,545	2,169
Depreciation and amortization			57,538	-	57,538	19,179	76,717	70,673
Occupancy			441,156	-	441,156	49,017	490,173	753,151
Other expenses			3,215	-	3,215	12,834	16,049	22,283
			<u>\$ 3,553,167</u>	<u>\$ 562,942</u>	<u>\$ 4,116,109</u>	<u>\$ 647,136</u>	<u>\$ 4,763,245</u>	<u>\$ 4,570,967</u>

The accompanying notes are an integral part of the consolidated financial statements.

DISCOVERY CHARTER SCHOOL

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (76,168)	\$ 145,605
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	76,717	70,673
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	56,044	(110,583)
Prepaid expenses	(63)	7,836
Accounts payable and accrued expenses	21,609	4,347
Accrued payroll and benefits	67,924	(26,284)
Deferred lease liability	8,807	-
Deferred revenue	<u>25,000</u>	<u>-</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	179,870	91,594
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(66,887)</u>	<u>(17,792)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(66,887)</u>	<u>(17,792)</u>
NET INCREASE IN CASH	112,983	73,802
Cash at beginning of year	<u>804,201</u>	<u>730,399</u>
CASH AT END OF YEAR	<u>\$ 917,184</u>	<u>\$ 804,201</u>

The accompanying notes are an integral part of the consolidated financial statements.

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements include the accounts of Discovery Charter School (the “School”) and Friends of Discovery Charter School, Inc. (“Friends”), (collectively referred to as the “Organization”). The Organizations are presenting consolidated financial statements because they have a common Board of Trustees and economic interest. All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The Organization

The School is an educational corporation that operates as a charter school in Rochester, New York. On December 14, 2010 (School’s date of inception), the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. During 2016, the School’s charter was renewed for a three year term which expires in June 2019. The School was established to prepare students to meet the challenges of a rapidly changing world, providing elementary school children real skills for the real world through an interdisciplinary program that integrates literacy, language arts, mathematics, social studies, visual arts and science.

Friends was organized under the laws of the State of New York on February 9, 2006 (Friends’ date of inception) as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law as Friends of Community Charter School of Rochester, Inc. Friends was formed to provide funding and administrative assistance to promote the application for a charter school, to provide ongoing financial and volunteer support for such school and to engage in any and all activities reasonably related to such purpose. In 2009, this Organization changed its name to Friends of Discovery Charter School, Inc.

Financial Statement presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017 AND 2016

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Organization's operations in accordance with the guidelines established by the Organization. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from public school districts is based on the number of students enrolled in the School from each district. Revenue is recognized when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable or requirements of the grant are met.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions and unconditional promises to give are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at financial institutions located in New York State and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$75,000 at June 30, 2017 and 2016.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2017 and 2016.

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017 AND 2016

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from five to ten years.

Deferred revenue

The School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Deferred lease liability

The School leases its facility. The lease contains pre-determined fixed escalations of the base rent. In accordance with GAAP, the School recognizes the related rent expense on a straight-line basis over three years which is the lease term and records the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease liability.

Tax exempt status

The School and Friends are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 31, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed goods and services

The Organization receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

The School received contributed legal services, professional development services and contributed goods which were valued at approximately \$18,200 and \$17,100 which are included in the accompanying statement of activities and changes in net assets for the years ended June 30, 2017 and June 30, 2016, respectively.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution.

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017 AND 2016

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Comparatives for the year ended June 30, 2016

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through September 21, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: SCHOOL FACILITY

In July 2013, the School entered into a facility lease for its current location through June 30, 2016. Rent is based each year on the number of square feet used by the School, the square feet used by the sub-lessee (see below), and a set property management fee which may be waived if the School's revenue does not exceed its expenses by \$50,000 each year. The gross square footage rate for the space for the fiscal year ended June 30, 2014 is \$16.20, \$16.65 for 2015, and \$17.08 for 2016, which are reduced by square footage abatement of 5,104 square feet in 2014, 2,290 square feet in 2015, and 2,830 square feet in 2016, which result in an actual square footage rate of \$13.91 in 2014, \$15.67 in 2015, and \$15.94 in 2016. The square footage rate for the space that was subleased for the fiscal year ending June 30, 2014 is \$12.23, \$12.48 for 2015, and \$12.73 for 2016. The School renewed their lease for their current location effective July 1, 2016 with an expiration date of June 30, 2019. The square footage rate for the space for the fiscal year ended June 30, 2017 is \$9.35, \$9.54 for 2018 and \$9.73 for 2019. Rent expense incurred under this lease for the years ended June 30, 2017 and 2016 was approximately \$446,000 and \$753,000, respectively.

The approximate future minimum payments on this agreement based on the current square footage usage and property management fee is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 446,000
2019	455,000
	<u>\$ 901,000</u>

In July 2013, the Organization entered into a sublease agreement with a corporation agreeing to sublease space in their building. The sublease agreement expired on June 30, 2016. Rent was based each year on the number of square feet used by the corporation.

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017 AND 2016

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Classroom/playground equipment	\$ 48,406	\$ 48,406
Office equipment	18,304	18,304
Computer equipment	347,407	280,520
Food service equipment	6,648	6,648
Leasehold improvements	<u>107,378</u>	<u>107,378</u>
	528,143	461,256
Less accumulated depreciation and amortization	<u>282,465</u>	<u>205,748</u>
	<u>\$ 245,678</u>	<u>\$ 255,508</u>

NOTE D: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Child Nutrition Program	\$ 153,734	\$ 132,634
Fresh Fruit and Vegetables Program	3,718	-
Habits of Character and Scholarship	8,550	-
First Grade Expedition	1,000	-
After School Program	<u>10,000</u>	<u>10,000</u>
	<u>\$ 177,002</u>	<u>\$ 142,634</u>

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017 AND 2016

NOTE E: OPERATING LEASES

The Organization leases office equipment under non-cancelable lease agreements expiring at various dates through October 2019. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 2,002
2019	2,002
2020	500
	<u>\$ 4,504</u>

NOTE F: LINE OF CREDIT

The School has available \$400,000 of a line of credit with a bank, with interest at prime plus 1.5% (an effective rate of 5.75% at June 30, 2017). There were no borrowings outstanding on this line at June 30, 2017 or 2016.

NOTE G: RETIREMENT PLANS

The Organization participates in the New York State Teachers' Retirement System (NYSTRS). This System is a cost sharing multiple employer public employee retirement system. The System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

The New York State Teachers' Retirement Board administers NYSTRS. The System 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. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods, Albany, NY 12211-2395.

The System is noncontributory for the employee, except for those who joined the System after July 27, 1976 and before January 1, 2010 with less than ten years membership, who contribute 3% of their salary. Those joining on or after January 1, 2010 are required to contribute 3.5% of their annual salary for their entire career. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

DISCOVERY CHARTER SCHOOL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017 AND 2016

NOTE G: RETIREMENT PLANS, Cont'd

The Organization is required to contribute at an actuarially determined rate, currently 11.72% of the annual covered payroll for the fiscal year ended June 30, 2017. The rate applicable to the year ended June 30, 2016 was 13.26%. The Organization's contributions made to the system was equal to 100% of the contributions required for each year. The required contributions for the current year and preceding year was:

2017	\$ 270,903
2016	227,853

Effective July 2012, the School established an Employee Retirement 403(b) Plan for all employees. The School may make a discretionary contribution to the Plan. There were no discretionary contributions made by the School for the years ended June 30, 2017 and 2016.

NOTE H: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Organization. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying consolidated financial statements. Accordingly, no amounts have been provided in the accompanying consolidated financial statements for such potential claims.

NOTE I: CONCENTRATIONS

At June 30, 2017 and 2016 approximately 95% and 99% of grants and other receivables are due from the New York State Department of Education relating to certain grants.

The School's primary source of funding is obtained from the New York State Department of Education and is reported as public school district income in the accompanying statement of activities and changes in net assets. This funding is based on the home district of each pupil and is received from various districts. The total per pupil allocation income for the years ended June 30, 2017 and 2016 was \$3,624,309 and \$3,531,704, respectively. This is approximately 77% and 75% of total operating revenue and support for the years ended June 30, 2017 and 2016, respectively. The per-pupil rate is set annually by the State based on the school district in which the School's students are located.

NOTE J: COMMITMENTS

The School has a yearly services agreement with a not-for-profit organization to provide administrative management, human resources and information technology support. This expense amounted to approximately \$63,800 for the years ended June 30, 2017 and 2016.

DISCOVERY CHARTER SCHOOL

OTHER CONSOLIDATING FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING FINANCIAL INFORMATION

Board of Trustees
Discovery Charter School

We have audited the consolidated financial statements of Discovery Charter School as of and for the year ended June 30, 2017, and we have issued our report thereon dated September 21, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2017 consolidating financial information hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The 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 for the year ended June 30, 2017, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
September 21, 2017

DISCOVERY CHARTER SCHOOL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

<u>ASSETS</u>	<u>Discovery Charter School</u>	<u>Friends of Discovery Charter School, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT ASSETS</u>				
Cash	\$ 907,093	\$ 10,091	\$ -	\$ 917,184
Cash in escrow	75,000	-	-	75,000
Grants and other receivables	190,834	-	-	190,834
Prepaid expenses	<u>2,348</u>	<u>-</u>	<u>-</u>	<u>2,348</u>
TOTAL CURRENT ASSETS	1,175,275	10,091	-	1,185,366
<u>PROPERTY AND EQUIPMENT, net</u>	<u>245,678</u>	<u>-</u>	<u>-</u>	<u>245,678</u>
TOTAL ASSETS	<u>\$ 1,420,953</u>	<u>\$ 10,091</u>	<u>\$ -</u>	<u>\$ 1,431,044</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 115,367	\$ -	\$ -	\$ 115,367
Accrued payroll and benefits	438,230	-	-	438,230
Deferred revenue	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
TOTAL CURRENT LIABILITIES	578,597	-	-	578,597
<u>DEFERRED LEASE LIABILITY</u>	8,807	-	-	8,807
<u>NET ASSETS</u>				
Unrestricted	666,547	91	-	666,638
Temporarily restricted	<u>167,002</u>	<u>10,000</u>	<u>-</u>	<u>177,002</u>
TOTAL NET ASSETS	<u>833,549</u>	<u>10,091</u>	<u>-</u>	<u>843,640</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,420,953</u>	<u>\$ 10,091</u>	<u>\$ -</u>	<u>\$ 1,431,044</u>

DISCOVERY CHARTER SCHOOL

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017

	<u>Discovery Charter School</u>	<u>Friends of Discovery Charter School, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenue and support:				
Public school districts:				
Per pupil allocation income	\$ 3,624,309	\$ -	\$ -	\$ 3,624,309
District textbooks in-kind	16,300	-	-	16,300
Students with disabilities	<u>421,016</u>	<u>-</u>	<u>-</u>	<u>421,016</u>
Total revenue from public school districts	4,061,625	-	-	4,061,625
Federal and State grants	527,201	-	-	527,201
Private grants	96,395	-	-	96,395
Donated supplies, materials and services	<u>1,856</u>	<u>-</u>	<u>-</u>	<u>1,856</u>
Total other revenue and support	<u>625,452</u>	<u>-</u>	<u>-</u>	<u>625,452</u>
 TOTAL OPERATING REVENUE AND SUPPORT	 4,687,077	 -	 -	 4,687,077
Expenses:				
Program services:				
Regular education	3,553,167	-	-	3,553,167
Special education	562,942	-	-	562,942
Supporting services:				
Management and general	<u>647,136</u>	<u>-</u>	<u>-</u>	<u>647,136</u>
TOTAL EXPENSES	<u>4,763,245</u>	<u>-</u>	<u>-</u>	<u>4,763,245</u>
 CHANGE IN NET ASSETS	 (76,168)	 -	 -	 (76,168)
Net assets at beginning of year	<u>909,717</u>	<u>10,091</u>	<u>-</u>	<u>919,808</u>
NET ASSETS AT END OF YEAR	<u>\$ 833,549</u>	<u>\$ 10,091</u>	<u>\$ -</u>	<u>\$ 843,640</u>

DISCOVERY CHARTER SCHOOL
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Discovery 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 Discovery Charter School, which comprise the consolidated statement of financial position as of June 30, 2017 and the related consolidated statements of activities and changes in net assets, 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 September 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Discovery 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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Discovery Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Discovery 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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 over financial reporting 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 financial reporting 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Discovery Charter School's consolidated 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*.

We noted certain matters that we have reported to management of Discovery Charter School in a separate letter dated September 21, 2017.

Discovery Charter School's Response to Finding

Discovery Charter School's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Discovery Charter School's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
September 21, 2017

DISCOVERY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

Finding 2017-001

Statement of condition

During our audit, we noted grant revenue was overstated. Management recorded grant revenue for a grant that had a stated purpose of support in funding for the School's summer learning program. This resulted in a significant audit adjustment.

Criteria and effect of conditions

According to accounting principles generally accepted in the United States of America, grant revenue should be recognized as it is earned. The summer learning program took place subsequent to June 30, 2017; therefore cash received from this grant should have been recorded as deferred revenue on the consolidated statement of financial position until the program took place.

Recommendation

We recommend the School review all grant documentation to ensure that revenue is recorded in the proper period.

Management response

Per the recommendation of Mengel, Metzger, Barr & Co. LLP, Discovery Charter School will review all grant documentation to ensure that revenue is recorded in the proper period.