

**ELMWOOD VILLAGE CHARTER SCHOOLS**

**FINANCIAL STATEMENTS  
WITH ADDITIONAL INFORMATION**

**June 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Elmwood Village Charter Schools

We have audited the accompanying balance sheets of Elmwood Village Charter Schools (the Organization) as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Additional Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018 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.

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October 17, 2018

ELMWOOD VILLAGE CHARTER SCHOOLS

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**Balance Sheets**

June 30,	2018	2017
<b>Assets</b>		
Current assets:		
Cash	\$ 3,764,809	\$ 2,620,745
Grants and other receivables (Note 2)	239,971	404,541
Prepaid expenses and other	56,307	117,145
	<b>4,061,087</b>	3,142,431
Property and equipment, net (Note 3)	<b>11,612,544</b>	11,828,594
	<b>\$ 15,673,631</b>	\$ 14,971,025
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 440,562	\$ 283,123
Accounts payable	232,902	1,080,377
Accrued expenses	883,461	602,063
Deferred revenue	121,168	84,550
	<b>1,678,093</b>	2,050,113
Long-term debt (Note 5)	<b>6,566,328</b>	6,251,101
<b>Net assets:</b>		
Unrestricted	<b>7,429,210</b>	6,669,811
	<b>\$ 15,673,631</b>	\$ 14,971,025

ELMWOOD VILLAGE CHARTER SCHOOLS

**Statements of Activities**

For the years ended June 30,	2018	2017
<b>Changes in unrestricted net assets:</b>		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 7,341,681	\$ 4,953,325
Revenue - students with disabilities	690,772	619,387
Revenue - additional state aid	-	169,894
Federal grants	638,744	730,862
Contributions and local grants	197,372	206,273
Special event revenues, net of expenses of \$25,223 and \$25,558	29,735	19,459
Rental income	240,159	214,579
Other income	52,260	60,491
Total support and revenue	<u>9,190,723</u>	<u>6,974,270</u>
Expenses:		
Program expenses:		
Regular education	5,031,668	3,224,185
Special education	1,161,640	888,858
Other program	579,382	266,512
Supporting services:		
Management and general	1,658,634	1,286,945
Total expenses	<u>8,431,324</u>	<u>5,666,500</u>
<b>Change in net assets</b>	<b>759,399</b>	<b>1,307,770</b>
Net assets - beginning	<u>6,669,811</u>	<u>5,362,041</u>
Net assets - ending	<u>\$ 7,429,210</u>	<u>\$ 6,669,811</u>

See accompanying notes.

ELMWOOD VILLAGE CHARTER SCHOOLS

**Statements of Cash Flows**

For the years ended June 30,	2018	2017
<b>Operating activities:</b>		
Cash received from public school districts	\$ 8,159,024	\$ 5,665,187
Cash received from federal grants	636,743	610,776
Cash received from contributions and local grants	273,990	250,823
Cash received from special events	54,958	45,017
Cash received from rents	240,159	214,579
Cash received from other sources	52,260	60,710
Payments to employees for services and benefits	(5,486,584)	(3,596,560)
Payments to vendors and suppliers	(1,645,969)	(1,636,993)
Interest paid	(271,911)	(192,112)
<b>Net operating activities</b>	<b>2,012,670</b>	<b>1,421,427</b>
<b>Investing activities:</b>		
Property and equipment expenditures	(1,341,272)	(5,206,285)
<b>Financing activities:</b>		
Proceeds from long-term debt	788,034	3,370,338
Principal payments on long-term debt	(315,368)	(282,205)
<b>Net financing activities</b>	<b>472,666</b>	<b>3,088,133</b>
<b>Net change in cash</b>	<b>1,144,064</b>	<b>(696,725)</b>
Cash - beginning	2,620,745	3,317,470
<b>Cash - ending</b>	<b>\$ 3,764,809</b>	<b>\$ 2,620,745</b>
<b>Reconciliation of change in net assets to net cash flows from operating activities:</b>		
Change in net assets	\$ 759,399	\$ 1,307,770
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	538,392	324,139
Loss on disposal of property and equipment	33,840	-
Changes in other operating assets and liabilities:		
Grants and other receivables	164,570	(237,286)
Prepaid expenses and other	60,838	(97,033)
Accounts payable	137,615	(3,095)
Accrued expenses	281,398	42,382
Deferred revenue	36,618	84,550
<b>Net operating activities</b>	<b>\$ 2,012,670</b>	<b>\$ 1,421,427</b>

See accompanying notes.

**Notes to Financial Statements**

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**1. Summary of Significant Accounting Policies:**

**Organization and Purpose:**

Elmwood Village Charter Schools (the Organization) operates two charter schools in the City of Buffalo, New York (the City) authorized by the Board of Trustees of the State University of New York (Board of Trustees).

The two charter schools previously represented two entities included in the accompanying financial statements, Elmwood Village Charter School Days Park (EVCS Days Park)(formerly Elmwood Village Charter School) and Elmwood Village Charter School Hertel (EVCS Hertel)(formerly Elmwood Village Charter School 2). Effective July 1, 2017, the two entities were merged to form the Organization as authorized by the Board of Trustees. The schools are chartered through July 2022 and continued operations are contingent upon approval of its charter renewal.

EVCS Days Park currently offers classes from kindergarten through eighth grade. EVCS Hertel began offering classes in September 2017 from kindergarten through second grade.

All significant 2017 intercompany transactions and balances have been eliminated.

**Cash:**

Cash in financial institutions potentially subjects the Organization to concentrations of credit risk, since it may exceed insured limits at various times throughout the year. The Organization complies with a requirement to hold no less than \$100,000 in an escrow account to pay legal and audit expenses that would be associated with dissolution should it occur.

**Accounts Receivable:**

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

**Property and Equipment:**

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

**Enrollment Fees:**

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

**Fees and Grants:**

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

## Contributions:

Contributions are reported at fair value at the date the contribution is made. Contributions are recorded as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as unrestricted revenue. There were no restricted contributions or net assets as of and for the years ended June 30, 2018 and 2017.

## Income Taxes:

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

## Transportation and Food Services:

Several districts provide the Organization with certain transportation services without cost. The City of Buffalo School District also provides food services without cost. The value of these services has not been recorded in these financial statements.

## Subsequent Events:

The Organization has evaluated events and transactions for potential recognition or disclosure through October 17, 2018 (the date the financial statements were available to be issued).

## Use of Estimates:

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

## Cost Allocation:

The 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.

## 2. Grants and Other Receivables:

	2018	2017
Resident student enrollment	\$ 107,157	\$ 233,729
Grants	132,814	170,812
	<u>\$ 239,971</u>	<u>\$ 404,541</u>

In July 2017, all New York State charter schools serving students in the fiscal 2017 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 \$169,894 is included as resident student enrollment receivable on the accompanying balance sheet as of June 30, 2017. No additional state aid was received for the year ended June 30, 2018.

## 3. Property and Equipment:

	2018	2017
Land	\$ 546,400	\$ 236,400
Buildings and improvements	11,835,564	9,272,231
Leasehold improvements	140,806	140,806
Instructional equipment	900,384	815,185
Office equipment	301,760	237,932
Construction in progress (see below)	-	2,703,750
	<u>13,724,914</u>	<u>13,406,304</u>
Less accumulated depreciation	2,112,370	1,577,710
	<u>\$ 11,612,544</u>	<u>\$ 11,828,594</u>

Construction in progress at June 30, 2017 related to a new building for EVCS Hertel which was completed in conjunction with the opening of the school year in September 2017.

## 4. Short-Term Borrowings:

At June 30, 2018, the Organization has available a \$200,000 bank demand line of credit for working capital with interest payable at prime plus .25%. The line is subject to the usual terms and conditions applied by the bank for working capital financing, secured by essentially all assets of the Organization, and is annually reviewed and renewed. There were no borrowings on the line of credit at June 30, 2018 and 2017.

## 5. Long Term Debt:

	2018	2017
Bank mortgage notes payable, monthly installments of \$28,409 including interest at 3.675%, secured by related building and equipment, balloon payment of approximately \$2,236,000 due July 2021.	\$ 2,966,760	\$ 3,192,534
Bank construction mortgage and term notes payable, monthly installments of \$28,377 including interest at 3.675%, secured by Organization property and equipment, balloon payment of \$3,374,000 due August 2021.	4,020,822	3,370,338
Equipment loans, varying monthly installments and interest rates, secured by related equipment, due through August 2022.	70,485	33,736
	<u>7,058,067</u>	<u>6,596,608</u>
Less unamortized debt issuance costs	51,177	62,384
	<u>7,006,890</u>	<u>6,534,224</u>
Less current portion	440,562	283,123
	<u>\$ 6,566,328</u>	<u>\$ 6,251,101</u>

Debt issuance costs are amortized as interest expense over the remaining term of the debt arrangements. Amortization expense of debt issuance costs for the years ended June 30, 2018 and 2017 was \$11,207 and \$6,428 respectively.

Estimated aggregate maturities of long-term debt balances at June 30, 2018 are:

	Debt Issuance	
	Principal	Costs
2019	\$ 452,031	\$ (11,469)
2020	464,096	(11,469)
2021	477,939	(11,469)
2022	5,662,224	(11,469)
2023	1,777	(5,301)
	<u>\$ 7,058,067</u>	<u>\$ (51,177)</u>

The bank loan agreements contain certain covenants relating to, among other things, the maintenance of levels of debt service coverage and various other restrictions. Management believes it complies with pertinent covenants.

## 6. Retirement Plan:

The Organization 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 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 for the system. The report may be obtained from the New York State Teachers' Retirement System at [www.nystrs.org](http://www.nystrs.org).

TRS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined between July 1976 and December 2009. Participants hired 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 hired on or after April 1, 2012 are required to contribute 3.5% of compensation through March 31, 2013. Beginning April 1, 2013, those participants contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. No employee contribution is required for those hired prior to July 1976. Pursuant to Article 11 of the Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate is 9.80% of the annual covered payroll for the year ended June 30, 2018, and 11.72% for the year ended June 30, 2017.

The Organization's required contributions for the years ended June 30, 2018 and 2017 were \$313,511 and \$263,737.

The Organization also has a contributory defined contribution pension plan covering essentially all employees. The Organization contributes a percentage of non-instructional employees' salaries to the plan, subject to certain limitations. The Organization's pension expenses for the years ended June 30, 2018 and 2017 were \$18,872 and \$11,020.

## 7. Operating Lease:

The Organization leases property under the terms of a non-cancelable operating lease. Rental expense under this lease was \$277,431 and \$277,009 for the years ended June 30, 2018 and 2017. The Organization purchased a building from the City during fiscal 2012, and entered into a non-cancelable sub lease for this property.

Future minimum annual rentals due are:

2019	\$	265,100
2020		265,100
2021		265,100
2022		289,200
2023		289,200
Thereafter		867,600
	\$	<u>2,241,300</u>

Future minimum annual rentals to be received under the sublease are:

2019	\$	235,900
2020		19,700
	\$	<u>255,600</u>

## 8. Cash Flows Information:

The 2017 statement of cash flows excludes property and equipment additions included in accounts payable at June 30, 2017 totaling \$985,090.

**Additional Information**  
**Schedule of Expenses**

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

	No. of Positions	Program Services			Supporting Services	2018 Total	2017 Total
		Regular Education	Special Education	Other Program	Management and General		
Salaries							
Administrative Staff	21	\$ -	\$ -	\$ -	\$ 746,241	\$ 746,241	\$ 451,269
Instructional	90	2,624,080	595,340	-	-	3,219,420	2,091,585
Non-Instructional	8	-	-	312,042	-	312,042	146,920
Total Salaries	119	2,624,080	595,340	312,042	746,241	4,277,703	2,689,774
Employee benefits and taxes		929,182	208,393	141,694	211,010	1,490,279	949,168
Advertising		-	-	-	3,878	3,878	20,143
Contracted services		28,810	143,821	86	14,346	187,063	307,505
Dues and subscriptions		8,923	-	-	-	8,923	6,169
Fieldtrips		49,913	-	-	-	49,913	30,335
Insurance		-	-	-	107,046	107,046	82,631
Interest		167,211	34,797	23,941	45,962	271,911	192,112
Occupancy		188,571	42,734	28,409	34,576	294,290	283,582
Postage		-	-	-	3,049	3,049	5,480
Student activities		26,972	96,197	-	-	123,169	16,577
Printing		-	-	-	18,302	18,302	8,202
Supplies and materials		93,429	-	-	-	93,429	65,846
Meetings		-	-	-	782	782	1,222
Office expense		-	-	-	52,314	52,314	34,289
Other expenses		-	-	-	33,146	33,146	21,347
Professional fees		-	-	-	185,641	185,641	166,925
Recruitment		-	-	-	6,207	6,207	2,568
Repairs and maintenance		85,521	18,993	13,188	82,055	199,757	136,980
Staff development		54,831	-	-	-	54,831	29,428
Technology		111,378	-	-	-	111,378	90,729
Telephone		21,593	4,767	3,353	6,317	36,030	21,362
Testing and assessments		40,607	-	-	-	40,607	27,736
Textbooks		94,074	-	-	-	94,074	47,538
Travel		3,784	-	-	-	3,784	1,915
Transportation		-	-	19,019	-	19,019	24,213
Utilities		75,347	16,598	11,727	22,735	126,407	78,585
		4,604,226	1,161,640	553,459	1,573,607	7,892,932	5,342,361
Depreciation		427,442	-	25,923	85,027	538,392	324,139
Total		\$ 5,031,668	\$ 1,161,640	\$ 579,382	\$ 1,658,634	\$ 8,431,324	\$ 5,666,500

**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  
Elmwood Village Charter Schools

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 Elmwood Village Charter Schools (the Organization), which comprise the balance sheet as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 "Lynden & McCormick, LLP". The signature is written in a cursive, flowing style.

October 17, 2018