ENTERPRISE CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2018

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Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Enterprise Charter School

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to a financial audit 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 of material misstatement.

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

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

Opinion

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

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying 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 September 24, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

September 24, 2018

Balance Sheets

June 30,	2018	2017
Assets		
Current assets:		
Cash	**$ 5,021,334**	$ 4,873,067
Receivables (Note 2)	**127,788**	268,379
Prepaid expenses	**110,352**	22,899
	5,259,474	5,164,345
Property and equipment, net (Note 3)	**6,237,075**	6,266,796
Investments held in trust (Note 4)	**918,215**	908,875
Deferred lease commisions (Note 5)	**41,587**	-
	$ 12,456,351	$ 12,340,016
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (Note 7)	**$ 92,472**	$ 87,472
Accounts payable and accrued expenses	**600,955**	639,387
Deferred revenue	**12,191**	28,519
	705,618	755,378
Long-term debt (Note 7)	**6,121,898**	6,214,371
Net assets:		
Unrestricted (Note 8)	**5,628,835**	5,370,267
	$ 12,456,351	$ 12,340,016

See accompanying notes.

Statements of Activities

For the years ended June 30,	2018	2017
Support and revenue:		
Enrollment fees:		
Revenue-resident student enrollment	**$ 5,203,934**	$ 5,028,222
Revenue-students with disabilities	**279,895**	375,156
Revenue-additional state aid	**-**	171,172
Federal grants	**309,050**	275,569
State and local grants	**17,187**	48,431
Rental income	**198,298**	195,337
Other income	**56,471**	56,120
Total support and revenue	**6,064,835**	6,150,007
Expenses:		
Program expenses:		
Regular education	**3,816,829**	3,690,143
Special education	**448,560**	549,157
Other programs	**321,870**	408,127
Total program expenses	**4,587,259**	4,647,427
Supporting services:		
Management and general	**1,219,008**	1,265,839
Total expenses	**5,806,267**	5,913,266
Change in net assets	**258,568**	236,741
Net assets - beginning	**5,370,267**	5,133,526
Net assets - ending	**$ 5,628,835**	$ 5,370,267

See accompanying notes.

Statements of Cash Flows

For the years ended June 30,	2018	2017
Operating activities:		
Cash received from enrollment fees	**$ 5,652,685**	$ 5,488,946
Cash received from federal, state and local grants	**281,644**	432,852
Cash received from rental activities	**198,298**	195,337
Cash received from other sources	**56,471**	56,120
Payments to employees for services and benefits	**(3,909,662)**	(4,050,576)
Payments to vendors and suppliers	**(1,102,524)**	(1,153,931)
Interest paid	**(526,603)**	(533,053)
Net operating activities	**650,309**	435,695
Investing activities:		
Property and equipment expenditures	**(362,208)**	(286,444)
Deposits to investments held in trust, net	**(9,340)**	(2,966)
Deferred lease commissions	**(43,021)**	-
Net investing activities	**(414,569)**	(289,410)
Financing activities:		
Payments on long-term debt	**(87,473)**	(82,472)
Net change in cash	**148,267**	63,813
Cash - beginning	**4,873,067**	4,809,254
Cash - ending	**$ 5,021,334**	$ 4,873,067
Reconciliation of change in net assets to net cash flows from operating activities:		
Change in net assets	**$ 258,568**	$ 236,741
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	**393,363**	356,343
Changes in operating assets and liabilities:		
Receivables	**140,591**	(5,271)
Prepaid expenses	**(87,453)**	(1,805)
Accounts payable and accrued expenses	**(38,432)**	(178,832)
Deferred revenue	**(16,328)**	28,519
Net operating activities	**$ 650,309**	$ 435,695

See accompanying notes.

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Enterprise Charter School (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 2019, at which time it must apply to renew its charter for another term. The School currently offers classes from kindergarten through grade 8.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through September 24, 2018, 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 in order to pay for legal and audit expenses that would be associated with dissolution should it occur.

Receivables:

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

Property and Equipment:

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

Enrollment Fees:

The School is reimbursed based on the approved operating expense per pupil of the public school district in which the 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 of Buffalo 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 compliance and financial audits by the funding sources. Management believes no significant adjustments are necessary to recognized amounts.

Transportation:

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

Income Taxes:

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

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 School'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. Receivables:

	2018	2017
Grants	$ 123,914	$ 95,649
Enrollment fees	3,874	172,730
	$ 127,788	$ 268,379

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 $171,172 is included as enrollment fees receivable on the accompanying balance sheet as of June 30, 2017. No additional state aid was received for the year ended June 30, 2018.

3. Property and Equipment:

	2018	2017
Building and improvements	$ 7,815,453	$ 7,624,508
Furniture and equipment	1,472,906	1,301,643
Books	163,869	163,869
Vehicles	20,751	20,751
	9,472,979	9,110,771
Less accumulated depreciation	3,235,904	2,843,975
	$ 6,237,075	$ 6,266,796

4. Investments Held in Trust:

The following cash accounts are held by a trustee in compliance with the issuance of 2011 Series bonds (Note 7):

	2018	2017
Debt service fund	$ 636,119	$ 635,874
Repair and replacement fund	200,195	200,138
Custodian account	81,901	72,863
	$ 918,215	$ 908,875

5. Deferred Lease Commissions

On August 8, 2018, the School entered into an agreement with a tenant to renew the lease on a building on the School's campus. The lease is for 10 years effective March 1, 2018 with a termination date of February 29, 2028. Lease commissions in the amount of $43,021 were paid to a broker and will be amortized over 10 years, the term of the lease. Amortization expense for the year ended June 30, 2018 was $1,434.

6. Line of Credit

The School has available an unsecured $450,000 working capital demand line of credit from a financial institution, with interest payable at one-month LIBOR plus 3.25%. There were no borrowings outstanding at June 30, 2018 and 2017.

7. Long-Term Debt:

	2018	2017
Erie County Industrial Development Agency Facility Revenue Bonds (Enterprise Charter School Project), Series 2011A (tax exempt) Bonds, annual gross principal installments ranging from $90,000 to $590,000 plus interest ranging from 6.0% to 7.5%, final payment due December 2040.	$ 6,725,000	$ 6,835,000
Less unamortized debt issuance costs	510,630	533,157
	6,214,370	6,301,843
Less current portion	92,472	87,472
	$ 6,121,898	$ 6,214,371

In February 2011, the School entered into an installment sale agreement with Erie County Industrial Development Agency (ECIDA), principally to finance the cost to acquire and renovate buildings to be used for the operation of the School. To finance the project, ECIDA authorized the sale of Revenue Bonds in the aggregate amount of $7,345,000 under a trust indenture with a bank trustee. The sale is secured by mortgage and security agreements granting the trustee a mortgage lien on and security interest in the facility and the other mortgaged property. The bonds are further secured by the debt service fund (Note 4).

Debt issuance costs are amortized as interest expense over the remaining term of the bonds. Amortization of debt issuance costs for each of the years ended June 30, 2018 and 2017 was $22,527.

Aggregate maturities of net long-term debt subsequent to June 30, 2018 are:

	Principal	Debt Issuance Costs
2019	115,000	(22,527)
2020	125,000	(22,527)
2021	130,000	(22,527)
2022	140,000	(22,527)
2023	155,000	(22,527)
Thereafter	6,060,000	(397,995)
	$ 6,725,000	$ (510,630)

Interest expense for the years ended June 30, 2018 and 2017 was $526,603 and $533,053.

The bond agreements include restrictive covenants relative to debt service coverage and liquidity ratios.

8. Board Designated Net Assets:

The Board of Trustees has designated $300,000 of the unrestricted net assets for future nonoperational purposes.

9. Retirement Plans:

The School participates in the New York State Teachers' Retirement System (TRS) and New York State and Local Employees' Retirement System (ERS) (the Systems), which are cost-sharing multiple employer public employee retirement systems. The Systems offer 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.

New York State Teachers' Retirement System:

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 TRS at www.nystrs.org.

New York State and Local Employees' Retirement System:

ERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from ERS at www.osc.state.ny.us/retire.

Funding Policies:

No employee contribution is required for those whose service began prior to July 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems 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% (ERS) or 3.5% (TRS) of compensation throughout their active membership in the Systems. 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.

For ERS, the Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the School to the pension accumulation fund. The rate ranges from 9.3% to 15.9% for 2018 and 2017, dependent on the participant's tier. Required contributions for ERS were $57,802 and $48,051 for the years ended June 30, 2018 and 2017.

Pursuant to Article 11 of Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board at an actuarially determined rate. 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 required contributions for TRS were $229,519 and $310,780 for the years ended June 30, 2018 and 2017.

10. Rental Income:

The School leases space to various organizations under the terms of non-cancellable operating leases. Rental revenue for these leases totaled $198,298 and $195,337 for the years ended June 30, 2018 and 2017.

Future minimum annual rentals receivable under these leases are:

2019	$	**156,173**
2020		**136,223**
2021		**131,430**
2022		**121,844**
2023		**121,844**
Thereafter		**568,605**
	$	**1,236,119**

11. Lease Obligations:

The School entered into an equipment operating lease agreement that requires minimum annual lease payments of $17,568 through 2019. Rental expense was $17,699 and $20,986 for the years ended June 30, 2018 and June 30, 2017.

Additional Information
Schedule of Expenses

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

	Number of positions	2018 Regular Education	2018 Special Education	2018 Other Programs	2018 Management and General	2018 Total	2017 Total
Instructional personnel	53.0	$ 1,843,756	$ 202,998	$ 9,925	$ -	$ 2,056,679	
Non-instructional personnel	19.0	-	-	173,876	828,574	1,002,450	
Total salaries	72.0	$ 1,843,756	$ 202,998	$ 183,801	$ 828,574	$ 3,059,129	
Salaries		$ 1,843,756	$ 202,998	$ 183,801	$ 828,574	$ 3,059,129	$ 2,941,962
Employee benefits and payroll taxes		327,384	36,068	32,646	147,097	543,195	564,617
Retirement benefits		173,168	19,078	17,268	77,807	287,321	358,831
Consultants		9,000	92,315	-	-	101,315	105,781
Professional fees		108,681	6,793	6,793	13,584	135,851	162,863
Insurance		86,922	5,433	5,433	10,864	108,652	104,815
Supplies and materials		85,210	9,385	-	-	94,595	77,754
Student services		53,615	5,902	5,345	-	64,862	121,926
Transportation		441	48	44	-	533	43,917
Repairs and maintenance		127,625	7,977	7,977	15,952	159,531	143,399
Staff development		13,434	840	840	1,678	16,792	80,463
Meetings, conferences, and travel		11,860	741	741	1,483	14,825	12,526
Office expenses		35,998	2,250	2,250	4,499	44,997	60,187
Postage and delivery		5,207	325	325	652	6,509	5,331
Contracted services		14,159	885	885	1,770	17,699	20,986
Dues and subscriptions		7,173	448	448	897	8,966	7,743
Telephone and internet		43,142	2,696	2,696	5,394	53,928	21,186
Utilities		96,706	6,044	6,044	12,088	120,882	119,933
Technology		14,951	934	934	1,870	18,689	43,045
Advertising		7,294	456	456	911	9,117	7,798
Interest		421,282	26,330	26,330	52,661	526,603	533,053
Miscellaneous		15,131	946	946	1,890	18,913	18,807
		3,502,139	428,892	302,202	1,179,671	5,412,904	5,556,923
Depreciation and amortization		314,690	19,668	19,668	39,337	393,363	356,343
Total		$ 3,816,829	$ 448,560	$ 321,870	$ 1,219,008	$ 5,806,267	$ 5,913,266

See independent auditors' report on additional information.

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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
Enterprise Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Enterprise Charter School (the School), which comprise the balance sheet as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 School's 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

September 24, 2018