

**FINN ACADEMY: AN ELMIRA CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Finn Academy: An Elmira Charter School

We have audited the accompanying balance sheets of Finn Academy: An Elmira Charter School (the School) as of June 30, 2017 and 2016, 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 School 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 financial statements as a whole. The additional 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 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 30, 2017 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.



Lynden & McCormick, LLP

October 30, 2017

FINN ACADEMY: AN ELMIRA CHARTER SCHOOL

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**Balance Sheets**

June 30,	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 622,213	\$ 32,377
Grants and other receivables (Note 2)	368,796	460,465
Prepaid expenses and other	110,744	67,470
	<u>1,101,753</u>	<u>560,312</u>
Property and equipment, net (Note 3)	<u>328,607</u>	333,871
	<u>\$ 1,430,360</u>	<u>\$ 894,183</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Short-term borrowings (Note 4)	\$ -	\$ 200,000
Note payable - related party (Note 5)	49,736	74,604
Accounts payable	358,699	308,691
Accrued expenses	-	77,540
Deferred revenue	544,380	1,650
	<u>952,815</u>	<u>662,485</u>
<b>Net assets:</b>		
Unrestricted	<u>477,545</u>	231,698
	<u>\$ 1,430,360</u>	<u>\$ 894,183</u>

See accompanying notes.

**Statements of Activities**

For the years ended June 30,	2017	2016
<b>Changes in unrestricted net assets:</b>		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 2,803,217	\$ 2,356,355
Revenue - students with disabilities	126,104	71,602
Revenue - additional state aid	106,024	43,025
Federal and local grants	208,128	349,570
Interest and other income	15,211	23,965
Total support and revenue	<u>3,258,684</u>	<u>2,844,517</u>
Expenses:		
Program expenses:		
Regular education	1,838,773	1,623,638
Special education	229,862	252,825
Other program	315,410	158,746
Supporting services:		
Management and general	628,792	579,796
Total expenses	<u>3,012,837</u>	<u>2,615,005</u>
<b>Change in net assets</b>	<b>245,847</b>	<b>229,512</b>
Net assets - beginning	<u>231,698</u>	<u>2,186</u>
Net assets - ending	<u>\$ 477,545</u>	<u>\$ 231,698</u>

**Statements of Cash Flows**

For the years ended June 30,	2017	2016
<b>Operating activities:</b>		
Cash received from public school districts	\$ 2,934,181	\$ 2,262,813
Cash received from federal and local grants	891,696	251,269
Cash received from other sources	67,206	36,024
Payments to employees for services and benefits	(1,966,654)	(1,620,561)
Payments to vendors and suppliers	(1,022,178)	(704,810)
Interest paid	(44,744)	(18,389)
<b>Net operating activities</b>	<b>859,507</b>	<b>206,346</b>
<b>Investing activities:</b>		
Property and equipment expenditures	(44,803)	(363,846)
<b>Financing activities:</b>		
Net proceeds from (payments on) short-term borrowings	(200,000)	200,000
Principal payments on note payable	(24,868)	(26,229)
<b>Net financing activities</b>	<b>(224,868)</b>	<b>173,771</b>
<b>Net change in cash</b>	<b>589,836</b>	<b>16,271</b>
Cash - beginning	32,377	16,106
<b>Cash - ending</b>	<b>\$ 622,213</b>	<b>\$ 32,377</b>
<b>Reconciliation of change in net assets to net cash flows from operating activities:</b>		
Change in net assets	\$ 245,847	\$ 229,512
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	50,067	31,824
Changes in other operating assets and liabilities:		
Grants and other receivables	91,669	(348,056)
Prepaid expenses and other	(43,274)	8,507
Accounts payable	50,008	205,368
Accrued expenses	(77,540)	77,541
Deferred revenue	542,730	1,650
<b>Net operating activities</b>	<b>\$ 859,507</b>	<b>\$ 206,346</b>

See accompanying notes.

**Notes to Financial Statements**

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

**Organization and Purpose:**

Finn Academy: An Elmira Charter School (the School), chartered in 2015, operates a charter school in the City of Elmira, New York (the City) authorized by the Board of Regents of the University of the State of New York. The School currently offers classes from kindergarten through fourth grade. The School has been chartered through June 2020 and continued operations are contingent upon approval of its charter renewal.

**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 \$50,000 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 using the straight-line method. 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 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 School's enrollment fees are received primarily from the City.

**Fees and 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 source. Management believes no significant adjustments are necessary to recognized amounts.

The School records grant awards accounted for as exchange transactions as deferred revenue until related services are performed.

**Income Taxes:**

The School is a 501(c)(3) organization exempt from taxation under Section 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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Subsequent Events:**

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 30, 2017 (the date the financial statements were available to be issued).



### Reclassifications:

The 2016 financial statements have been reclassified to conform to the presentation adopted in 2017.

### 2. Grants and Other Receivables:

	2017	2016
Grants	\$ 59,463	\$ 200,301
Resident student enrollment	309,333	208,169
Other	-	51,995
	<u>\$ 368,796</u>	<u>\$ 460,465</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 Department of Education. Additional aid totaling \$106,024 and \$43,025 is included as resident student enrollment receivable on the accompanying balance sheets as of June 30, 2017 and 2016.

### 3. Property and Equipment:

	2017	2016
Building improvements	\$ 224,557	\$ 193,989
Instructional and office equipment	185,941	171,706
	<u>410,498</u>	<u>365,695</u>
Less accumulated depreciation	81,891	31,824
	<u>\$ 328,607</u>	<u>\$ 333,871</u>

### 4. Short-Term Borrowings:

During 2016, the School entered into various loan factoring agreements which assigned certain accounts receivable to the lender. Pursuant to the agreements, the debt was due on demand and subject to administrative fees calculated as a percentage of the assigned accounts receivable.

At June 30, 2016, \$200,000 was outstanding and administrative expenses totaling \$36,822 and \$26,311 were recognized as interest expense for the years ended June 30, 2017 and 2016. The loans were repaid in 2017.

In July 2017, the School obtained a \$150,000 unsecured bank demand line of credit with interest payable at prime plus 1%.

### 5. Note Payable – Related Party:

The School entered into an interest free promissory note agreement with an employee whereby the employee agreed to loan the School an amount of \$160,000. Amounts outstanding on the note as of June 30, 2017 and 2016 totaled \$49,736 and \$74,604, respectively. The note was repaid in September 2017.

### 6. Pension Plan:

In September 2017, the Board of Trustees of the School passed a resolution to adopt a 403(b) plan effective as of July 1, 2017.

### 7. Operating Lease:

The School leases property under the terms of a non-cancelable operating lease. Rental expense under this lease was \$240,000 and \$105,800 for the years ended June 30, 2017 and 2016.

Future minimum annual rentals due are:

2018	\$ 245,000
2019	270,000
2020	240,000
	<u>\$ 755,000</u>

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

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

	No. of Positions	Program Services			Supporting Services	2017 Total	2016 Total
		Regular Education	Special Education	Other Program	Management and General		
Salaries							
Administrative staff	5.5	\$ -	\$ -	\$ -	\$ 369,117	\$ 369,117	\$ 388,168
Instructional	31.0	1,087,982	160,623	-	-	1,248,605	1,033,716
Non-Instructional	0.5	-	-	8,645	-	8,645	-
Total salaries	37.0	1,087,982	160,623	8,645	369,117	1,626,367	1,421,884
Fringe benefits and payroll taxes		181,508	26,797	1,442	61,580	271,327	216,301
Classroom supplies and materials		20,709	-	-	-	20,709	80,480
Copier lease		10,632	-	-	-	10,632	6,919
Dues and subscriptions		4,375	-	-	-	4,375	4,540
Fieldtrips		4,202	-	-	-	4,202	5,056
Food service		-	-	122,279	-	122,279	96,910
Instructional consultants		29,071	-	-	-	29,071	-
Insurance		38,059	5,437	2,719	8,156	54,371	36,656
Interest		36,822	-	-	-	36,822	26,311
Occupancy		168,000	24,000	12,000	36,000	240,000	105,800
Office expense		1,412	-	-	9,015	10,427	11,587
Other expenses		9,583	-	-	2,058	11,641	30,259
Printing and promotion		3,209	-	-	-	3,209	17,656
Professional fees		-	-	-	123,359	123,359	89,867
Recruitment		4,422	-	-	-	4,422	1,102
Repairs and maintenance		38,091	-	-	-	38,091	72,682
Staff development		28,583	-	-	-	28,583	63,973
Student testing and assessment		18,700	-	-	-	18,700	23,617
Student activities		-	-	15,006	-	15,006	7,985
Technology		50,984	-	-	-	50,984	41,775
Telephone		6,004	-	-	-	6,004	10,577
Travel and conferences		5,391	-	-	-	5,391	3,060
Transportation		-	-	146,817	-	146,817	148,646
Utilities		55,987	7,998	3,999	11,997	79,981	59,538
		1,803,726	224,855	312,907	621,282	2,962,770	2,583,181
Depreciation		35,047	5,007	2,503	7,510	50,067	31,824
Total		\$ 1,838,773	\$ 229,862	\$ 315,410	\$ 628,792	\$ 3,012,837	\$ 2,615,005

**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  
Finn Academy: An Elmira 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 Finn Academy: An Elmira Charter School (the School), which comprise the balance sheet as of June 30, 2017, 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 30, 2017.

**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 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 School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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.

A handwritten signature in blue ink that reads "Lyndon & McCormick, LLP". The signature is written in a cursive, flowing style.

October 30, 2017