



RIVERHEAD CHARTER SCHOOL, INC.

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016



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RIVERHEAD CHARTER SCHOOL, INC.

*FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Riverhead Charter School, Inc.
3685 Middle Country Road
Calverton, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Riverhead Charter School, Inc. (a not-for-profit corporation, "the School"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, 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. Those standards require that we plan and perform the audits 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 auditors consider internal control relevant to the School'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 School'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 its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cerini & Associates LLP

Bohemia, New York
September 18, 2017

RIVERHEAD CHARTER SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

2017

2016

ASSETS (Note 7)

Current Assets:

Cash and cash equivalents (Note 3).....	\$ 9,115,455	\$ 7,935,447
Investments (Note 2).....	59,857	59,708
Prepaid expenses.....	12,596	20,109
Accounts receivable, net of allowance for doubtful accounts (Note 5).....	244,169	349,017
Grants receivable (Note 5).....	88,802	90,504

TOTAL CURRENT ASSETS

9,520,879

8,454,785

Property and equipment, net of

accumulated depreciation (Notes 4 and 7).....

16,596,901

17,137,621

Restricted cash (Notes 6 and 7).....

2,753,956

2,774,163

TOTAL ASSETS

\$ 28,871,736

\$ 28,366,569

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 756,930	\$ 892,872
Deferred revenue.....	-	57,397
Current portion of capital lease payable.....	13,440	13,440
Current portion of bonds payable, net of unamortized bond issuance costs (Note 7).....	273,857	268,857
Interest payable (Note 7).....	601,532	608,808

TOTAL CURRENT LIABILITIES

1,645,759

1,841,374

Capital lease payable, net of current portion.....

31,360

44,800

Bonds payable, net of current portion

and unamortized bond issuance costs (Note 7).....

19,802,375

20,071,451

TOTAL LIABILITIES

21,479,494

21,957,625

Commitments and contingencies (Notes 3, 4, 5, 6, 7, 8, 9, and 10)

Net Assets:

Unrestricted.....

7,295,153

6,309,312

Temporarily restricted (Note 8).....

97,089

99,632

TOTAL NET ASSETS

7,392,242

6,408,944

TOTAL LIABILITIES AND NET ASSETS

\$ 28,871,736

\$ 28,366,569

The accompanying notes are an integral part of these financial statements.

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:			
Tuition and program service income (Notes 3, 5, and 8).....	\$ 7,004,618	\$ -	\$ 7,004,618
Government grants (Notes 3 and 6).....	240,318	-	240,318
Investment income (Note 2).....	18,056	-	18,056
Other income (Notes 3 and 7).....	24,372	-	24,372
Net assets released from restriction (Note 8).....	2,543	(2,543)	-
	7,289,907	(2,543)	7,287,364
EXPENSES:			
Program services.....	5,565,140	-	5,565,140
Management and general.....	738,926	-	738,926
	6,304,066	-	6,304,066
CHANGE IN NET ASSETS	985,841	(2,543)	983,298
Net assets, beginning of year.....	6,309,312	99,632	6,408,944
Net assets, end of year.....	\$ 7,295,153	\$ 97,089	\$ 7,392,242

The accompanying notes are an integral part of these financial statements.

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Tuition and program service income (Notes 3, 5, and 8).....	\$ 6,997,003	\$ 33,575	\$ 7,030,578
Government grants (Notes 3 and 6).....	129,967	-	129,967
Investment income (Note 2).....	4,749	-	4,749
Other income (Notes 3 and 7).....	38,099	-	38,099
Net assets released from restriction (Note 8).....	-	-	-
TOTAL SUPPORT AND REVENUE	7,169,818	33,575	7,203,393
EXPENSES:			
Program services.....	5,360,019	-	5,360,019
Management and general.....	790,921	-	790,921
TOTAL EXPENSES	6,150,940	-	6,150,940
CHANGE IN NET ASSETS	1,018,878	33,575	1,052,453
Net assets, beginning of year.....	5,290,434	66,057	5,356,491
Net assets, end of year.....	<u>\$ 6,309,312</u>	<u>\$ 99,632</u>	<u>\$ 6,408,944</u>

The accompanying notes are an integral part of these financial statements.

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	Program Services			Total	Management and General	Total
	No. of Positions	Regular Education	Special Education			
Personnel services costs						
Administrative staff personnel.....	12	\$ 287,515	\$ 15,012	\$ 302,527	\$ 317,150	\$ 619,677
Instructional personnel.....	58	1,869,996	97,639	1,967,635	-	1,967,635
Non-instructional personnel.....	3	67,628	3,531	71,159	9,941	81,100
Total salaries and staff.....	73	2,225,139	116,182	2,341,321	327,091	2,668,412
Fringe benefits and payroll taxes (Note 9).....		695,674	36,324	731,998	102,263	834,261
Advertising.....		667	35	702	98	800
Occupancy.....		94,397	4,929	99,326	13,876	113,202
Contracted services.....		163,359	8,530	171,889	24,014	195,903
Contribution expense.....		8,653	452	9,105	1,272	10,377
Travel and transportation.....		8,386	438	8,824	1,233	10,057
Supplies.....		82,989	4,333	87,322	12,199	99,521
Core curriculum.....		13,040	681	13,721	-	13,721
Telephone and communications.....		13,705	716	14,421	2,015	16,436
Repairs and maintenance.....		130,447	6,811	137,258	19,176	156,434
Equipment.....		4,214	220	4,434	-	4,434
Student meals.....		244,968	12,791	257,759	-	257,759
Depreciation and amortization.....		466,533	24,359	490,892	68,579	559,471
Interest expense, net of subsidized interest (Note 7).....		1,026,030	53,573	1,079,603	150,825	1,230,428
Conferences.....		22,726	1,187	23,913	3,341	27,254
Recruitment.....		3,084	161	3,245	453	3,698
Insurance.....		45,203	2,360	47,563	6,645	54,208
Bad debt expense.....		-	-	-	-	-
Miscellaneous.....		39,768	2,076	41,844	5,846	47,690
		<u>\$ 5,288,982</u>	<u>\$ 276,158</u>	<u>\$ 5,565,140</u>	<u>\$ 738,926</u>	<u>\$ 6,304,066</u>

The accompanying notes are an integral part of these financial statements.

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services			Management and General	Total	
	No. of Positions	Regular Education	Special Education			Total
Personnel services costs						
Administrative staff personnel.....	9	\$ 121,725	\$ 6,775	\$ 128,500	\$ 336,978	\$ 465,478
Instructional personnel.....	42	1,791,824	270,783	2,062,607	-	2,062,607
Non-instructional personnel.....	3	23,190	3,710	26,900	4,020	30,920
Total salaries and staff.....	54	1,936,739	281,268	2,218,007	340,998	2,559,005
Fringe benefits and payroll taxes (Note 9).....		646,106	93,833	739,939	113,759	853,698
Advertising.....		287	16	303	47	350
Occupancy.....		80,666	4,489	85,155	13,092	98,247
Contribution expense.....		-	-	-	-	-
Contracted services.....		213,731	11,895	225,626	34,688	260,314
Travel and transportation.....		9,275	516	9,791	1,505	11,296
Supplies.....		76,135	4,237	80,372	12,356	92,728
Core curriculum.....		7,032	391	7,423	-	7,423
Telephone and communications.....		10,675	594	11,269	1,733	13,002
Repairs and maintenance.....		98,593	5,487	104,080	16,001	120,081
Equipment.....		4,237	236	4,473	-	4,473
Student meals.....		208,459	11,602	220,061	-	220,061
Depreciation and amortization.....		455,534	25,353	480,887	73,932	554,819
Interest expense, net of subsidized interest (Note 7).....		1,018,816	56,702	1,075,518	165,351	1,240,869
Conferences.....		16,335	909	17,244	2,651	19,895
Recruitment.....		160	9	169	26	195
Insurance.....		50,103	2,788	52,891	8,131	61,022
Bad debt expense.....		-	-	-	2,529	2,529
Miscellaneous.....		25,398	1,413	26,811	4,122	30,933
		<u>\$ 4,858,281</u>	<u>\$ 501,738</u>	<u>\$ 5,360,019</u>	<u>\$ 790,921</u>	<u>\$ 6,150,940</u>

The accompanying notes are an integral part of these financial statements.

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

2017 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets.....	\$ 983,298	\$ 1,052,453
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Adjustments to reconcile change in net assets to net cash
provided by operating activities:

Depreciation and amortization.....	559,472	554,819
Amortization of bond issuance costs.....	15,924	15,924
Bad debt.....	-	2,529

Changes in operating assets and liabilities:

Prepaid expenses.....	7,513	(6,617)
Accounts receivable.....	104,848	(118,462)
Grants receivable.....	1,702	7,714
Accounts payable and accrued expenses.....	(135,942)	(498,193)
Interest payable.....	(7,276)	(3,528)
Deferred revenue.....	(57,397)	57,397

NET CASH PROVIDED BY OPERATING ACTIVITIES	1,472,142	1,064,036
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CASH FLOWS USED IN INVESTING ACTIVITIES:

Purchase of fixed assets.....	(18,752)	(128,752)
Purchase of investments.....	(149)	(245)

CASH USED IN INVESTING ACTIVITIES	(18,901)	(128,997)
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CASH FLOWS USED IN FINANCING ACTIVITIES:

Repayment of capital lease payable.....	(13,440)	(9,055)
Repayment of bonds payable.....	(280,000)	(270,000)

CASH USED IN FINANCING ACTIVITIES	(293,440)	(279,055)
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NET CHANGE IN CASH	1,159,801	655,984
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Cash, cash equivalents, and restricted cash, beginning of year.....	10,709,610	10,053,626
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Cash, cash equivalents, and restricted cash, end of year.....	\$ 11,869,411	\$ 10,709,610
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SUPPLEMENTAL CASH FLOW INFORMATION:

Financed acquisition of equipment.....	\$ -	\$ 67,295
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Cash paid for interest	\$ 1,452,406	\$ 1,469,608
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Riverhead Charter School, Inc. (hereinafter “the School”) is presented to assist in understanding the School’s financial statements. These financial statements and notes are representations of the School’s management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization: The School is a not-for-profit organization that was incorporated under Article 56 of the Education Law on February 1, 2001 pursuant to a five-year provisional charter granted by the Education Department of the State of New York (“NYSED”). The School’s main objective is to offer students a true choice in public education, which promotes love of learning and local exploration. The School’s goal is to provide a rigorous community of learning, which is inviting and stimulating to staff and parents, as well as students. The School intends to reverse the current spiral of student failure and meet or exceed State and federal standards, to nurture the individual gifts of every student, and to prepare them for a rewarding community life. Through fiscal 2013, the School was approved to provide education to children in kindergarten through sixth grade. Effective September 2013, the School received approval to expand its program to seventh grade, and commencing September 2014, to eighth grade. On March 2, 2017, the School received approval to expand its maximum enrollment to 700 students and will be renovating its old school and administrative buildings to accommodate the extra classes. The School’s charter has been renewed by the Education Department of the State of New York through June 30, 2022.

Income Tax Status: The School is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is publicly supported, as described in section 509(a). The School is also exempt from certain State and local taxes. The School evaluated for uncertain tax positions and has determined that there were no uncertain tax positions for 2017 and 2016. The School files a Form 990 and is exempt from filing a New York state return. The 990 is subject to review and examination by federal taxing authorities.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenue is recorded as earned and expenses are recorded when incurred.

Revenue Recognition: The School recognizes revenue on government and private grants when reimbursable expenditures under qualified programs are expended. Grants are typically fully expended within a one-year cycle. Tuition income is earned as education is provided to students enrolled at the School.

Deferred Revenue: The School recognizes, as deferred revenue, any amounts received in advance for the following year’s tuition. Revenue is recognized at the time services are provided.

Cash Equivalents: For the purposes of the financial statements, cash equivalents represent money market funds with financial institutions.

Advertising: The School uses advertising to promote its program and fundraising events among the public it serves. The production costs of advertising are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates: The presentation 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board, specifically for not-for-profit organizations. The School is required to report 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.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by action of the School and/or passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the School. Generally, the donors of these assets would permit the School to use all or part of the income earned on any related investments for general or specific purposes. The School had no permanently restricted net assets at June 30, 2017 and 2016.

Donated Services: The School benefits from volunteer services in program and administrative duties from Board members and other volunteers. Even though these donated services are valuable to the School, and help to advance its mission, no amounts have been reflected in the financial statements for these contributed services inasmuch as such services do not meet the criteria for recognition in the financial statements under accounting principles generally accepted in the United States of America, nor do they create or enhance non-financial assets.

Contributions: Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services based upon management estimates.

Leased Employees: The School has a contract with Extensis Group, LLC. (“Extensis”), a professional employer organization for leased employees. Extensis provides comprehensive human resource services to the School and is responsible for personnel, administrative, and benefits management functions, as well as payroll processing. Since Extensis is the employer of record for all employees assigned to the School, they are included in the Extensis quarterly Internal Revenue Service (“IRS”) Form 941, New York State Form NYS-45, and statutory New York State disability and workers compensation filings.

Property and Equipment: Property and equipment are stated at original cost. Those assets acquired by gift are carried at fair market value established at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation expense is computed using the straight-line method over each asset's estimated useful life as follows:

Building.....	25 - 39 years
Building improvements	10 - 25 years
Equipment	3.5 - 5 years

Bond Issuance Costs: Bond issuance costs are being amortized on a straight-line basis over the term of the bonds. In accordance with Accounting Standards Update No. 2015-03, effective for the year ended June 30, 2017, the School offset the unamortized portion of bond issuance costs against the outstanding liability. The School has applied this change in accounting principal retrospectively for the year ended June 30, 2016, which resulted in a decrease in the bond issuance cost asset and bond payable liability of \$45,119.

Subsequent Events: The School has evaluated events and transactions that occurred between July 1, 2017 and September 18, 2017, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE 2 - INVESTMENTS

Investments are presented in the statements of financial position at fair value. A fair value hierarchy has been established based upon the observable inputs to the evaluation of an asset or liability as of the measurement date. The three-level valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value levels (Level 1, 2, and 3):

- Level 1 instruments are valued using observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the School has the ability to access at the measurement date. Level 1 assets include highly-liquid U.S. Treasury securities and exchange-traded equity securities.
- Level 2 instruments are valued using observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most debt securities and some preferred stocks are model-priced by vendors using observable inputs and are classified within Level 2. Also included in the Level 2 category are derivative instruments that are priced using models with observable market inputs, including interest rates, foreign currency, and certain credit swap contracts.
- Level 3 instruments are valued using valuations that are derived from techniques in which one or more of the significant inputs, are unobservable (including assumptions about risk). Level 3 securities include less liquid securities such as highly structured and/or lower quality, asset-backed securities ("ABS") and commercial mortgage-backed securities ("CMBS"), including ABS backed by sub-prime loans, and private placement debt and equity securities. Because Level 3 fair values, by their nature, contain unobservable market inputs, as there is no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the School's best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

RIVERHEAD CHARTER SCHOOL, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 2 - INVESTMENTS (continued)

All of the investments held by the School are in certificates of deposit ("CD's") which are considered Level 2 investments because they are valued based on quoted prices for similar instruments in active markets.

NOTE 3 - CONCENTRATIONS AND COMMITMENTS

From time to time, the School has cash on deposit with a financial institution in excess of Federal Deposit Insurance Corporation-insured limits.

During fiscal 2017, approximately 92% of the School's total support and revenue was comprised of tuition income from several Eastern Suffolk County school districts, the largest of which were: Riverhead Central School District (60%), William Floyd School District (17%), Longwood Central School District (12%), South Country Central School District (5%), and other school districts (6%). The remaining 8% was primarily comprised of revenue related to the School's Student Meal Program (4%), grants from the Education Department of the State of New York (3%), and other income (1%).

During fiscal 2016, approximately 94% of the School's total support and revenue was comprised of tuition income from several Eastern Suffolk County school districts, the largest of which were: Riverhead Central School District (55%), William Floyd School District (20%), Longwood Central School District (13%), South Country Central School District (6%), and other school districts (6%). The remaining 6% was primarily comprised of revenue related to the School's Student Meal Program (3%), grants from the Education Department of the State of New York (2%), and other income (1%).

Effective July 1, 2008, the School entered into a collective bargaining agreement with its teachers and teacher assistants through the Teachers' Association. The agreement, which expired on June 30, 2009, provided for merit-based increases for teachers and teachers' assistants of 3% for fiscal 2009. On July 9, 2013 the School entered into a new collective bargaining agreement which expired on June 30, 2014. During the year ended June 30, 2017, a new collective bargaining agreement was drafted. The final agreement has not been issued as of the report date, but is expected to take effect during the year ending June 30, 2018.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land.....	\$ 794,457	\$ 794,457
Building.....	17,432,111	17,432,111
Building improvements.....	1,137,312	1,137,312
Equipment.....	444,830	426,847
Total cost.....	<u>19,808,710</u>	<u>19,790,727</u>
Less accumulated depreciation and amortization.....	(3,211,809)	(2,653,106)
Net property and equipment	<u>\$ 16,596,901</u>	<u>\$ 17,137,621</u>

During fiscal 2014, the School commenced construction of a school building to house all of its students. As outlined in Note 7, the School secured bond financing in the amount of \$21,105,000 to cover the cost of the construction and other related costs.

RIVERHEAD CHARTER SCHOOL, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 4 - PROPERTY AND EQUIPMENT (continued)

During 2002, the School purchased equipment with federal Public Charter Schools Program grant funds. Pursuant to the contract, the NYSED has the right to reclaim equipment purchased with these funds if the program in conjunction with which they are used is terminated. These assets were fully depreciated as of June 30, 2017 and 2016.

NOTE 5 - ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following as of June 30,:

	<u>2017</u>	<u>2016</u>
Tuition receivable from school districts	\$ 129,044	\$ 13,527
NYSED	18,060	115,686
Subsidized interest receivable.....	95,748	219,804
Other.....	1,317	-
Total accounts receivable.....	<u>\$ 244,169</u>	<u>\$ 349,017</u>

Furthermore, grants receivable of \$88,802 and \$90,504 at June 30, 2017 and 2016, respectively, were due from various school districts for reimbursable expenses incurred before year-end.

The School uses the allowance method to determine uncollectible accounts and grants receivable. The allowance for doubtful accounts is based primarily on the School's collection efforts and management's analysis of specific outstanding balances. The School does not impose interest or finance charges on overdue receivable balances. Collectability is assessed on an individual account basis, and uncollectible accounts are written off against the allowance after approval by the School Board. As of June 30, 2016, management established an allowance for uncollectible accounts of \$63,021. There was no allowance established as of June 30, 2017.

NOTE 6 - GRANTOR RESTRICTIONS

Financial awards from governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the School for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NYSED requires all charter schools to maintain \$75,000 in a separate account to cover the cost of a potential closure should the School's charter not be renewed. This amount has to be maintained even when the Charter is renewed and has accordingly been included in restricted cash on the School's statements of financial position at June 30, 2017 and 2016.

NOTE 7 - BONDS PAYABLE

On August 22, 2013, the School issued education revenue bonds through the Riverhead IDA Economic Job Development Corporation in the amount of \$21,105,000 to fund the construction of a 50,000 square foot two-story building and related infrastructure to be used as a school building to replace modular buildings located on the School's six-acre campus.

RIVERHEAD CHARTER SCHOOL, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 7 - BONDS PAYABLE (continued)

The bonds are comprised of \$16,105,000 of Series A tax-exempt bonds ("Series A Bonds") with maturities ranging from August 1, 2015 through August 1, 2048, bearing interest between 3% and 7.04% and \$5,000,000 of Series B federally taxable qualified school construction bonds ("Series B Bonds") that bear interest at 7.65% and mature on August 1, 2034. Interest on the bonds are payable semi-annually on February 1st and August 1st of each year, commencing February 1, 2014.

Pursuant to the bond agreement, the proceeds of the loan were utilized as follows:

	Series A Tax-Exempt	Series B Taxable	Total
Financing building construction.....	\$ 9,200,000	\$ 4,900,000	\$ 14,100,000
Repayment of Edison Debt.....	3,195,164	-	3,195,164
Debt service reserve fund	1,502,925	500,000	2,002,925
Fund Capital interest through			
February 15, 2015	1,545,978	-	1,545,978
Original Issue Discount	182,411	-	182,411
Issuance costs	627,630	145,492	773,122
Total	<u>16,254,108</u>	<u>5,545,492</u>	<u>21,799,600</u>
Paid directly by the School.....	<u>(149,108)</u>	<u>(545,492)</u>	<u>(694,600)</u>
Funded through bond issuance.....	<u>\$ 16,105,000</u>	<u>\$ 5,000,000</u>	<u>\$ 21,105,000</u>

Any excess bond funds at the completion of the projects will be used for the early retirement of debt as determined by the Trustee. As of June 30, 2017 and 2016, there were \$503,209 and \$569,852 of excess bond funds available, respectively.

The bonds are secured by all of the assets of the School and provide for a lien on gross revenue, a mortgage on the property, and a guarantee by the School. The debt service reserve fund outlined above, must be maintained by the Custodian until all obligations have been repaid. The Series B Bonds provide for direct interest subsidy payments from the US Treasury at the lesser of the tax credit rate at the time of issuance or the 7.65% issuance rate. The bond provides for interest only payments until 2016, at which time the principal will be repaid over the life of the bond based upon specific payment amounts as outlined in the bond agreement.

The bond retirements pursuant to the bond agreement are as follows for the years ending June 30:

2018.....	\$ 285,000
2019.....	295,000
2020.....	305,000
2021.....	315,000
2022.....	325,000
Thereafter	<u>19,030,000</u>
Total before debt issuance costs	\$ 20,555,000
Less: unamortized debt issuance costs.....	<u>(478,768)</u>
Total.....	<u>\$ 20,076,232</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 7 - BONDS PAYABLE (continued)

The School can redeem the Series A Bonds at any time subsequent to August 1, 2023 without penalty. The maturities of the outstanding debt at that time are \$1,630,000 at August 1, 2033, \$7,295,000 at August 1, 2043, and \$6,330,000 at August 1, 2048. Early redemption of the Series B Bonds can occur subsequent to August 1, 2018 at a premium commencing at 103.5% at August 1, 2018, decreasing to no premium at August 1, 2023. The School must maintain certain financial ratios pursuant to the bond agreement.

Interest expense incurred for the year ended June 30, 2017 and 2016 on the Series 2013 Bonds totaled \$1,461,055 and \$1,466,080, respectively. As of June 30, 2017, the School reported interest earned on unspent bond proceeds and Federal Subsidy interest income of \$657 and \$230,627, respectively. As of June 30, 2016, the School reported interest earned on unspent bond proceeds and Federal Subsidy interest income of \$340 and \$241,135, respectively. Federal Subsidy interest was offset against interest expense on the statements of functional expenses as of June 30, 2017 and 2016.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

The School's temporarily restricted net assets as of June 30, 2017 and 2016 are for the purpose of funding the National School Lunch Program in the amount of \$97,089 and \$99,632, respectively.

NOTE 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. 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. 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.

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 System 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 contribution rates for ERS vary depending on the participant's tier. The ERS average contribution rate was 15.5% and 18.2% as of June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, required contributions for ERS were \$29,699 and \$31,275, respectively.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 9 - RETIREMENT PLANS (continued)

Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board at an actuarially determined rate. The rate is 11.72% and 13.26% of the annual covered payroll as of June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, the required contributions for TRS totaled \$256,905 and \$292,743, respectively.

NOTE 10 - LITIGATION

From time to time the School is subject to certain claims or litigation in the normal course of its operations. Management became aware of several claims brought against the School during the year ended June 30, 2015, of which six were still outstanding as of June 30, 2017. Management is of the opinion that any claims are either without merit or that the present insurance coverage is sufficient to meet the financial obligations, if any, arising out of such claims or litigation. All construction related claims were resolved during fiscal 2016.

OTHER FINANCIAL INFORMATION



**Report On Internal Control over Financial Reporting and On
Compliance and Other Matters Based On an Audit of
Financial Statements Performed In Accordance
With Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors
Riverhead Charter School, Inc.
3685 Middle Country Road
Calverton, New York 11933

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 Riverhead Charter School, Inc. (hereinafter "the School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 18, 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 opinions 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 School'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 result 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.

Corin & Associates LLP

Bohemia, New York
September 18, 2017

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017*

Section I - Findings of Financial Statement Audit

There were no findings and questioned costs for the year ended June 30, 2017.

RIVERHEAD CHARTER SCHOOL, INC.

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017*

Section II - Prior Audit Findings of Financial Statement Audit

There were no findings and questioned costs for the year ended June 30, 2016.