

FINN ACADEMY: AN ELMIRA CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2020

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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, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for 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, 2020 and 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 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.

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

October 19, 2020

FINN ACADEMY: AN ELMIRA CHARTER SCHOOL

Balance Sheets

June 30,	2020	2019
Assets		
Current assets:		
Cash	\$ 1,585,674	\$ 673,140
Receivables (Note 2)	263,555	208,139
Prepaid expenses and other	76,151	81,223
	<u>1,925,380</u>	<u>962,502</u>
Property and equipment, net (Note 3)	820,455	674,246
Restricted cash	75,000	75,000
	<u>\$ 2,820,835</u>	<u>\$ 1,711,748</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 4,593	\$ 4,243
Accounts payable and accrued expenses	512,178	128,132
Deferred revenue	1,271	-
	<u>518,042</u>	<u>132,375</u>
Long-term debt	3,270	7,863
Paycheck Protection Program loan (Note 5)	654,160	-
Net assets:		
Without donor restrictions	<u>1,645,363</u>	<u>1,571,510</u>
	<u>\$ 2,820,835</u>	<u>\$ 1,711,748</u>

Statements of Activities

For the years ended June 30,	2020	2019
Support and revenue:		
Enrollment fees:		
Resident students	\$ 4,757,960	\$ 4,264,154
Resident students with disabilities	249,195	240,198
Additional state aid	-	98,366
Contributions - federal, state, and local awards	314,380	319,889
Fundraising and other income	16,690	40,101
Total support and revenue	5,338,225	4,962,708
Expenses:		
Program expenses:		
Regular education	3,357,938	2,688,107
Special education	423,599	342,991
Other program	507,418	526,238
Supporting services:		
Management and general	975,417	854,325
Total expenses	5,264,372	4,411,661
Change in net assets	73,853	551,047
Net assets - beginning	1,571,510	1,020,463
Net assets - ending	\$ 1,645,363	\$ 1,571,510

Statements of Functional Expenses

For the years ended June 30,

	2020					Total
	Number of Positions	Regular Education	Special Education	Other Program	Management and General	
Administrative personnel	6.0	\$ -	\$ -	\$ -	\$ 417,291	\$ 417,291
Instructional personnel	50.0	2,030,531	292,006	-	-	2,322,537
Non-instructional personnel	6.0	-	-	116,259	114,113	230,372
Total salaries	62.0	\$ 2,030,531	\$ 292,006	\$ 116,259	\$ 531,404	\$ 2,970,200
Salaries		\$ 2,030,531	\$ 292,006	\$ 116,259	\$ 531,404	\$ 2,970,200
Employee benefits and payroll taxes		482,099	69,330	27,603	126,168	705,200
Classroom supplies and materials		119,787	-	-	-	119,787
Copier lease		43,421	-	-	-	43,421
Dues and subscriptions		700	-	-	-	700
Fieldtrips		10,906	-	-	-	10,906
Food service		-	-	155,899	-	155,899
Insurance		50,017	7,145	3,573	10,718	71,453
Interest		810	-	-	-	810
Loss due to non-refundable security deposit		-	-	-	-	-
Rent		168,000	24,000	12,000	36,000	240,000
Office expense		4,049	-	-	15,523	19,572
Other expenses		17,164	1,632	473	19,422	38,691
Printing and promotion		1,187	-	-	-	1,187
Professional fees		150	-	-	169,522	169,672
Recruitment		-	-	-	22,433	22,433
Repairs and maintenance		72,295	10,328	5,164	15,491	103,278
Staff development		91,225	-	-	-	91,225
Student testing and assessment		25,040	-	-	-	25,040
Student activities		-	-	13,189	-	13,189
Technology		94,085	-	-	-	94,085
Telephone		8,931	-	-	-	8,931
Travel and conferences		3,438	-	-	-	3,438
Transportation		-	-	163,680	-	163,680
Utilities		54,032	7,719	3,859	11,578	77,188
		3,277,867	412,160	501,699	958,259	5,149,985
Depreciation		80,071	11,439	5,719	17,158	114,387
Total		\$ 3,357,938	\$ 423,599	\$ 507,418	\$ 975,417	\$ 5,264,372

See accompanying notes.

2019

Number of Positions	Regular Education	Special Education	Other Program	Management and General	Total
9.0	\$ -	\$ -	\$ -	\$ 457,211	\$ 457,211
50.0	1,661,655	239,475	-	-	1,901,130
3.0	-	-	87,512	-	87,512
62.0	\$ 1,661,655	\$ 239,475	\$ 87,512	\$ 457,211	\$ 2,445,853
	\$ 1,661,655	\$ 239,475	\$ 87,512	\$ 457,211	\$ 2,445,853
	337,281	48,609	17,764	92,804	496,458
	111,003	-	-	-	111,003
	24,757	-	-	-	24,757
	3,650	-	-	-	3,650
	12,086	-	-	-	12,086
	-	-	144,399	-	144,399
	39,121	5,589	2,794	8,383	55,887
	3,442	-	-	-	3,442
	-	-	-	23,945	23,945
	169,666	24,238	12,119	36,357	242,380
	2,366	-	-	17,150	19,516
	16,100	526	262	29,905	46,793
	6,627	-	-	-	6,627
	-	-	-	139,515	139,515
	-	-	-	12,223	12,223
	54,553	7,793	3,897	11,690	77,933
	31,793	-	-	-	31,793
	16,764	-	-	-	16,764
	-	-	15,078	-	15,078
	71,245	-	-	-	71,245
	4,983	-	-	-	4,983
	3,684	-	-	-	3,684
	-	-	234,032	-	234,032
	59,627	8,518	4,259	12,777	85,181
	2,630,403	334,748	522,116	841,960	4,329,227
	57,704	8,243	4,122	12,365	82,434
	\$ 2,688,107	\$ 342,991	\$ 526,238	\$ 854,325	\$ 4,411,661

Statements of Cash Flows

For the years ended June 30,	2020	2019
Operating activities:		
Cash received from enrollment fees	\$ 4,876,683	\$ 4,695,898
Cash received from contributions - federal, state, and local awards	380,272	394,343
Cash received from other sources	27,125	59,949
Payments to employees for services and benefits	(3,274,776)	(2,928,220)
Payments to vendors and suppliers	(1,485,281)	(1,492,095)
Interest paid	(810)	(3,442)
Net operating activities	523,213	726,433
Investing activities:		
Property and equipment expenditures	(260,596)	(281,573)
Financing activities:		
Net payments on short-term borrowings	-	(200,000)
Principal payments on long-term debt	(4,243)	(1,341)
Proceeds from Paycheck Protection Program loan	654,160	-
Net financing activities	649,917	(201,341)
Net change in cash and restricted cash	912,534	243,519
Cash and restricted cash - beginning	748,140	504,621
Cash and restricted cash - ending	\$ 1,660,674	\$ 748,140

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Finn Academy: An Elmira Charter School (the School), 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 offered classes from kindergarten through seventh grade in 2020 (kindergarten through sixth grade in 2019). The School is chartered through July 2023 and continued operations are contingent upon approval of its charter renewal.

New Accounting Standards Adopted:

During the year ended June 30, 2020, the School adopted two new comprehensive revenue recognition models under Financial Accounting Standards Board (FASB) Accounting Standard Updates (ASU).

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, addresses the differences between contributions and exchange transactions including guidance on timing and revenue recognition. ASU 2018-08 was adopted using the modified prospective method.

ASU 2014-09, *Revenue from Contracts with Customers*, requires an organization to recognize revenue from exchange transactions to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 was adopted using the full retrospective method.

The adoption of these standards did not impact the School's recognition of revenue and related accounts.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through October 19, 2020, 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 to pay legal and audit expenses that would be associated with dissolution should it occur. This is included as restricted cash on the balance sheets as of June 30, 2020 and 2019.

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.

Revenue Recognition:

Enrollment Fees

Enrollment fees are received from the public-school districts in which the student resides. The amount received each year from the resident district is generally the product of the approved operating expense per pupil and the full time equivalent enrollment of the students in the School residing in that district. The respective districts also reimburse the School for special education service based on approved applicable rates for the services provided. Revenues are recognized over the period the services are provided. The School generally invoices the resident district bimonthly and payment is due in 30 days. Enrollment fees received in advance are deferred and recognized when earned. The School's enrollment fees are received primarily from the City School District.

In June 2019, all New York State charter schools serving students in the fiscal 2019 school year received additional state aid. The additional aid was based on the number of students served during fiscal 2019 and was paid directly from the New York State Education Department. No additional state aid was received for the year ended June 30, 2020.

Contributions

Contributions, which include government awards, are reported at fair value at the date the pledge or award is received. Contributions are recorded as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions.

Conditional contributions, primarily government awards, are recorded as revenue when the School meets requirements in compliance with specific agreements. Amounts received before the required conditions are met are reported as refundable advances on the accompanying balance sheets. These conditional contributions are subject to compliance and financial audits by the funding sources. Management believes no significant adjustments are necessary to recognized amounts.

Receivables

Receivables 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 uncollectible receivables and a credit to accounts receivable.

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 accordance 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.

Functional Expense Allocation:

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These costs include salaries and benefits, which are allocated based on estimates of time and effort, and depreciation, occupancy, and utilities which are allocated based on management's estimate of program benefit.

2. Receivables:

	2020	2019
Enrollment fees	\$ 363,555	\$ 183,083
Contributions	-	75,056
	<u>363,555</u>	<u>258,139</u>
Less allowance for doubtful collections	<u>100,000</u>	<u>50,000</u>
	<u>\$ 263,555</u>	<u>\$ 208,139</u>

3. Property and Equipment:

	2020	2019
Building improvements	\$ 711,403	\$ 541,548
Instructional and office equipment	<u>439,983</u>	<u>352,527</u>
	<u>1,151,386</u>	<u>894,075</u>
Less accumulated depreciation	<u>330,931</u>	<u>219,829</u>
	<u>\$ 820,455</u>	<u>\$ 674,246</u>

4. Short-Term Borrowings:

The School has available a \$250,000 (\$150,000 at June 30, 2019) unsecured bank demand line of credit with interest payable at prime plus 1%. The line is subject to the usual terms and conditions applied by the bank for working capital financing and is annually reviewed and renewed. There were no borrowings on the line of credit at June 30, 2020 and 2019.

5. Paycheck Protection Program Loan:

During 2020, the School received a loan totaling \$654,160 from the Small Business Administration under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the pandemic described in Note 11. Some or all of the loan may be forgiven if certain criteria is met. Otherwise, the loan is unsecured, bears interest at 1%, and is payable over a negotiable period of time.

6. Retirement Plans:

In 2020, the School began to participate 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. The report may be obtained from TRS at www.nystrs.org.

No employee contribution is required for those whose service began prior to July 1976. TRS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined from July 1976 through December 2009. Participants whose service began on or after January 1, 2010 through March 31, 2012 are required to contribute 3.5% of compensation throughout their active membership in TRS. 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.

Pursuant to Article 11 of Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate is 8.86% of the annual covered payroll for the year ended June 30, 2020. The required contribution for the year ended June 30, 2020 was \$198,030.

The School also has a 403(b) pension plan covering selected employee groups. The School contributes 5% (4% for 2019) of non-instructional, qualifying employees' salaries to the plan, subject to certain limitations. The School's pension expense was \$23,517 and \$66,035 for the years ended June 30, 2020 and 2019.

7. Operating Lease:

The School leases property under the terms of a non-cancelable operating lease. The School's rent expense was \$240,000 and \$242,380 for the years ended June 30, 2020 and 2019.

Future minimum annual rentals due are \$188,000 each year through 2025.

8. Contingencies:

The School is subject to claims and lawsuits that arise in the ordinary course of business. Management does not believe these claims will have a material adverse effect on the School.

9. Cash Flows Information:

Noncash investing and financing activities excluded from the 2019 statement of cash flows include \$13,447 of equipment acquired through term financing agreements.

10. Financial Assets Available for Operating Purposes:

The School obtains financial assets generally through enrollment fees and contributions. The financial assets are acquired throughout the year to help meet the School's cash needs for general expenditures. If necessary, the School also has access to a \$250,000 bank demand line of credit (Note 4).

The School's financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consist of the following at June 30, 2020 and 2019:

	2020	2019
Cash available for operations	\$ 1,585,674	\$ 673,140
Receivables	263,555	208,139
	<u>\$ 1,849,229</u>	<u>\$ 881,279</u>

11. Risks and Uncertainties due to COVID-19:

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and all schools and resulted in a severe disruption of operations for many organizations.

In March 2020, the School transitioned to remote instruction for the remainder of the 2019-20 School year. Consequently, enrollment fees and revenue for the year ended June 30, 2020 were not reduced. The School's restart plan for the 2020-21 School year includes remote instruction in compliance with all government safety mandates.

The extent of the impact of COVID-19 on the School's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, and its impact on schools, including its students and families, employees, and vendors, none of which can be predicted.

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, 2020, 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 October 19, 2020.

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.



October 19, 2020