

**REPORT ON
ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
ALLENTOWN, PENNSYLVANIA
BASIC FINANCAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL

Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>PAGE (S)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 10
 BASIC FINANCIAL STATEMENTS	
School-wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds.....	19 - 20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund.....	21
Notes to Basic Financial Statements.....	22 - 34

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL

Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>PAGE (S)</u>
Independent Auditor’s 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	35 - 36
SUPPLEMENTAL INFORMATION:	
General Fund – Statement of Revenues, Expenditures and Changes In Fund Balance	37 - 38
Food Service Fund – Statement of Revenues, Expenditures and Changes In Net Position	39

FINANCIAL SECTION



November 9, 2018

Board of Directors
Arts Academy Elementary Charter School
601 W. Union Street
Allentown, PA 18101

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arts Academy Elementary Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Arts Academy Elementary Charter School at June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arts Academy Elementary Charter School's financial statements as a whole. The individual non-major fund financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The 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 the basis of accounting described in the notes to the financial statements. 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 November 9, 2018, on our consideration of Arts Academy Elementary Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the 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 Arts Academy Elementary Charter School's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

November 9, 2018

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Allentown, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018

The discussion and analysis of the Arts Academy Elementary Charter School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the financial performance as a whole; however, readers should also review the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is a component of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and the Management's Discussion and Analysis – for State and Local Governments issued in 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Arts Academy Elementary Charter School's Mission Statement

The Arts Academy Elementary Charter School will provide a comprehensive education program for students in grades K-5 by employing an intensive artistic immersion program. A rigorous academic program will be enhanced with rich and varied weekly experiences in Dance, Instrumental Music, Visual Art, Music, Theatre and Gymnastics. Each student will be provided with a broad introduction to the arts in order to enhance their future academic success.

Arts Academy Elementary Charter School's History

Founded by Dr. Thomas Lubben and a group of dedicated community partners, the Arts Academy Elementary Charter School opened in September 2015.

Financial Highlights

- At the close of the current fiscal year, the School reports an ending net position balance of \$451,093.

FINANCIAL STATEMENTS

The financial statements consist of three parts: Management's Discussion and Analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of Arts Academy Elementary Charter School. The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the School's overall financial status.

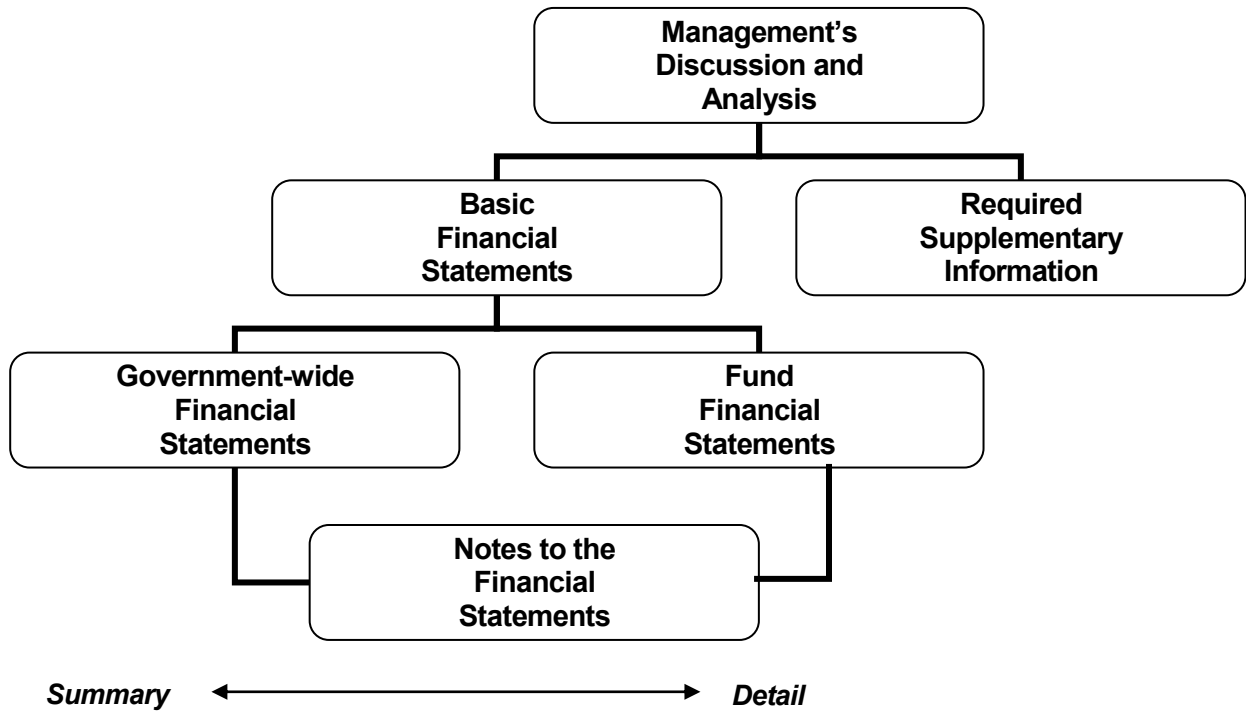
The remaining statements are fund financial statements that focus on individual parts of the School's operations in more detail than the government-wide statements. The governmental funds statements tell how the School's services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and reports the financial statements with the comparison of the School's budget for the year.

**ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018**

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another.

Figure A- 1 - Required Components of the Arts Academy Elementary Charter School's Financial Report



**ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018**

Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2 - Major Features of Arts Academy Elementary Charter School's Government-Wide and Fund Financial Statements

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as education, administration and community services	Activities the School operates similar to private business – The School has one proprietary fund – The Food Service Fund	Instances in which the School is the trustee or agent to someone else's resources – The School does not have any fiduciary funds
Required financial statements	Statement of net position, Statement of activities.	Balance Sheet, Statement of revenues, expenditures, and changes in fund balance	Statement of net position, Statement of revenues, expenses and changes in net position, Statement of cash flows	Statement of fiduciary net position, Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements, as presented, are comprised of four components: Management's Discussion and Analysis (this section), the Basic Financial Statements, Supplementary Information and Single Audit Requirements (if applicable).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

Fund Financial Statements

A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to demonstrate compliance with finance-related legal requirements. The School financial statements present one governmental fund – the general fund, and one proprietary fund – the food service fund.

- Governmental funds – Most of the School's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- Proprietary funds – These funds are used to account for the School's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School charges customers for services it provides these services are generally reported in proprietary funds. The Food Service Fund is the School's proprietary fund and is the same as the business-type activity reported in the government-wide statements, but provides more detail and additional information, such as cash flows.

**ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The School's total net position was \$451,093 at June 30, 2018.

Table 1 - Net Position - Fiscal Year Ended June 30, 2018 and 2017

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 850,663	\$ 32,016	\$ 882,679	\$ 906,052	\$ -	\$ 906,052
Non-Current Assets	300,709	-	300,709	295,552	-	295,552
TOTAL ASSETS	1,151,372	32,016	1,183,388	1,201,604	-	1,201,604
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-
Current and Other Liabilities	658,922	28,402	687,324	830,959	-	830,959
Long-term Liabilities	44,971	-	44,971	221,449	-	221,449
TOTAL LIABILITIES	703,893	28,402	732,295	1,052,408	-	1,052,408
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-
Net Position invested in capital assets, net of related debt	280,634	-	280,634	95,552	-	95,552
Restricted	37,831	-	37,831	-	-	-
Unrestricted	129,014	3,614	132,628	53,644	-	53,644
TOTAL NET POSITION	\$ 447,479	\$ 3,614	\$ 451,093	\$ 149,196	\$ -	\$ 149,196

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School's activities that are supported by other general revenues.

Table 2 takes the information from that Statement and rearranges it slightly so one can see the total revenues for the year.

Table 2 - Changes in Net Position – Fiscal Year Ended June 30, 2018 and 2017

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
REVENUES						
<i>Program Revenues</i>						
Charges for Services	\$ -	\$ 3,080	\$ 3,080	\$ -	\$ -	\$ -
Operating Grants and Contributions	322,389	127,095	449,484	378,622	-	378,622
Capital Grants and Contributions	-	-	-	-	-	-
General Revenues	4,810,504	88,767	4,899,271	4,199,915	261,839	4,461,754
TOTAL REVENUES	5,132,893	218,942	5,351,835	4,578,537	261,839	4,840,376
EXPENSES						
Instruction	2,662,200	-	2,662,200	2,613,834	-	2,613,834
Instructional Student Support	175,632	-	175,632	136,070	-	136,070
Administrative Support	981,450	-	981,450	709,832	-	709,832
Operations and Maintenance	966,828	-	966,828	809,918	-	809,918
Transportation	11,963	-	11,963	7,315	-	7,315
Food Service	-	263,344	263,344	12,285	261,839	274,124
Other Student Support Services	16,074	-	16,074	-	-	-
Student Activities	6,938	-	6,938	3,712	-	3,712
Debt Service	27,401	-	27,401	-	-	-
Unallocated Depreciation	-	-	-	-	-	-
TOTAL EXPENSES	\$ 4,848,486	\$ 263,344	\$ 5,111,830	\$ 4,292,966	\$ 261,839	\$ 4,554,805
TOTAL CHANGE IN NET POSITION	\$ 284,407	\$ (44,402)	\$ 240,005	\$ 285,571	\$ -	\$ 285,571

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018

Table 3 shows the School's largest functions – instructional programs, instructional student support, administrative, and operation and maintenance of plant, among others, with each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, contributions, and charges for services to show the remaining financial needs supported by local education agency revenue and other miscellaneous revenues.

Table 3 - Governmental Activities – Fiscal Year Ended June 30, 2018 and 2017

Functions/Programs	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,662,200	\$ 2,422,181	\$ 2,613,834	\$ 2,344,110
Instructional Student Support	175,632	143,959	136,070	128,617
Administrative & Bus. Support Svcs.	981,450	981,450	709,832	709,832
Operation & Maint. of Plant	966,828	916,131	809,918	708,473
Transportation	11,963	11,963	7,315	7,315
Other Student Support Services	16,074	16,074	-	-
Student Activities	6,938	6,938	12,285	12,285
Debt Service	27,401	27,401	3,712	3,712
Unallocated Depreciation	-	-	-	-
Total Governmental Activities	\$ 4,848,486	\$ 4,526,097	\$ 4,292,966	\$ 3,914,344

Government Fund

The focus of the School's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The School's governmental funds, reported an ending fund balance of \$160,513 at June 30, 2018. For the year ended June 30, 2018, the School's revenues of \$5,313,799, were more than the expenditures of \$5,140,810 resulting in a net income of \$172,989.

Table 4 reflects the activities of the Food Service Program.

Table 4 – Business-type Activities – Fiscal Year Ended June 30, 2018 and 2017

FUNCTIONS/PROGRAMS	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Food Service	\$ 263,344	\$ 133,169	\$ 261,839	\$ 261,839
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 263,344	\$ 133,169	\$ 261,839	\$ 261,839

The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will further detail the actual results of these operations.

**ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Management's Discussion And Analysis (MD&A)
Required Supplementary Information (RSI)
For the Year Ended June 30, 2018**

General Fund Budget

During the fiscal year, the Board authorizes revisions to the original budget to accommodate variances from the original budget estimates to the actual expenditures of the School. A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided.

Arts Academy Elementary Charter School applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process and must be added to the budget during the fiscal year. In addition, grants that are anticipated during the budgeting process are based on estimates. The budget must be modified during the fiscal year based on the actual grant awards.

The budgetary reserve includes amounts that may be transferred into expenditures for unexpected expenditures, upon approval of the Board. These amounts will only be appropriated into expenditure categories when the expenditure is necessary for the operation of the school. Any budget reserve amount not appropriated during the year will become part of the unreserved fund balance and available for future years' budgeting.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the School's investment in capital assets (net of depreciation) for its governmental activities totaled \$300,709. This investment in capital assets includes furniture, equipment and leasehold improvements.

During the 2017-18 fiscal year, the school invested \$28,000 towards construction improvements to the building that were completed at the end of August 2018.

Table 5 - Capital Assets Net of Depreciation & Amortization – Governmental Activities

	2018	2017
	Govern- mental Activities	Govern- mental Activities
Leasehold Improvements	\$ 39,000	\$ 40,472
Furniture and Equipment	233,709	255,080
Construction in Progress	28,000	-
TOTAL	\$ 300,709	\$ 295,552

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School does not anticipate any change in programs due to economic factors or budget concerns.

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE SCHOOL

No future events that will financially impact the School are anticipated at this time.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to the Executive Director, Arts Academy Elementary Charter School, 601 W. Union Street, Allentown, PA 18101.

FINANCIAL STATEMENTS

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Net Position
As of June 30, 2018

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 19,957	\$ -	\$ 19,957
Investments	-	-	-
Due From Other Funds	-	-	-
Due From Other Governments	830,706	32,016	862,722
Prepaid Expenses	-	-	-
TOTAL CURRENT ASSETS	850,663	32,016	882,679
NON-CURRENT ASSETS:			
Leasehold Improvements (Net of Depreciation)	39,001	-	39,001
Furniture and Equipment (Net of Depreciation)	233,708	-	233,708
Construction in Progress	28,000	-	28,000
TOTAL NON-CURRENT ASSETS	300,709	-	300,709
TOTAL ASSETS	\$ 1,151,372	\$ 32,016	\$ 1,183,388
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -
LIABILITIES			
CURRENT LIABILITIES:			
Due to Other Governments	\$ -	\$ -	-
Due to Other Funds	-	-	-
Accounts Payable	163,608	28,402	192,010
Current Portion of Long-Term Obligations	20,075	-	20,075
Accrued Salaries and Benefits	306,002	-	306,002
Payroll Deductions and Withholdings	169,237	-	169,237
Other Current Liabilities	-	-	-
TOTAL CURRENT LIABILITIES	658,922	28,402	687,324
NON-CURRENT LIABILITIES:			
Long-Term Portion of Compensated Absences	\$ 44,971	\$ -	\$ 44,971
Long-Term Portion of Loans Payable	-	-	-
Other Long-Term Liabilities	-	-	-
TOTAL LIABILITIES	\$ 703,893	\$ 28,402	\$ 732,295
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -
NET POSITION			
Invested in Capital Assets, Net of Related Debt	\$ 280,634	\$ -	\$ 280,634
RESTRICTED FOR:			
Other Restrictions	37,831	-	37,831
Unrestricted	129,014	3,614	132,628
TOTAL NET POSITION	\$ 447,479	\$ 3,614	\$ 451,093

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column per GASB Statement No. 34, para. 58.

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Activities
For the Fiscal Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 2,662,200	\$ -	\$ 240,019	\$ -	\$ (2,422,181)	\$ -	\$ (2,422,181)
Instructional Student Support	175,632	-	31,673	-	(143,959)	-	(143,959)
Admin. & Fin'l Support Services	981,450	-	-	-	(981,450)	-	(981,450)
Oper. & Maint. of Plant Svcs.	966,828	-	50,697	-	(916,131)	-	(916,131)
Transportation	11,963	-	-	-	(11,963)	-	(11,963)
Other Student Support Services	16,074	-	-	-	(16,074)	-	(16,074)
Student Activities	6,938	-	-	-	(6,938)	-	(6,938)
Debt Service	27,401	-	-	-	(27,401)	-	(27,401)
Unallocated Depreciation Expense	-	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	4,848,486	-	322,389	-	(4,526,097)	-	(4,526,097)
BUSINESS-TYPE ACTIVITIES:							
Food Service	263,344	3,080	127,095	-	-	(133,169)	(133,169)
TOTAL PRIMARY GOVERNMENT	\$ 5,111,830	\$ 3,080	\$ 449,484	\$ -	\$ (4,526,097)	\$ (133,169)	\$ (4,659,266)
GENERAL REVENUES							
Grants, Subsidies, & Contributions Not Restricted					\$ -	\$ -	\$ -
Investment Earnings					983	-	983
Fundraising Income (Net of Expenses)					600	-	600
Revenues from Student Activities					16,610	-	16,610
Local Education Agencies					4,913,359	-	4,913,359
Miscellaneous Items					9,719	-	9,719
Transfers					(88,767)	88,767	-
Special Item					(42,000)	-	(42,000)
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					4,810,504	88,767	4,899,271
CHANGE IN NET POSITION					284,407	(44,402)	240,005
NET POSITION - BEGINNING					149,196	-	149,196
PRIOR PERIOD ADJUSTMENT (NOTE 12)					13,876	48,016	61,892
NET POSITION - ENDING					\$ 447,479	\$ 3,614	\$ 451,093

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Balance Sheet – Governmental Funds
As of June 30, 2018

	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 19,957	\$ 19,957
Due from Other Governments	779,403	779,403
Prepaid Expenditures	-	-
TOTAL ASSETS	\$ 799,360	\$ 799,360
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES:		
Accounts Payable	\$ 163,608	\$ 163,608
Accrued Salaries and Benefits	306,002	306,002
Payroll Deductions and Withholdings	169,237	169,237
Other Current Liabilities	-	-
TOTAL LIABILITIES	638,847	638,847
FUND BALANCES:		
Nonspendable	-	-
Restricted	37,831	37,831
Committed	-	-
Assigned	-	-
Unassigned	122,682	122,682
TOTAL FUND BALANCES	160,513	160,513
TOTAL LIABILITIES AND FUND BALANCES	\$ 799,360	\$ 799,360

The accompanying notes are an integral part of this financial statement.

**ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
As of June 30, 2018**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 160,513**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefor are not reported as assets in governmental funds. The cost of the assets is \$371,614 and the accumulated depreciation is \$70,905. 300,709

Revenues not received soon enough after the close of the year to meet the currently available financial resources focus required under modified accrual reporting have not been recorded as revenue in the net change in fund balance. 51,303

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Build with Purpose Loan	(20,075)
Compensated Absences	<u>(44,971)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 447,479**

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>		
Local Sources	\$ 4,979,101	\$ 4,979,101
State Sources	108,500	108,500
Federal Sources	226,198	226,198
TOTAL REVENUES	5,313,799	5,313,799
	-----	-----
<u>EXPENDITURES</u>		
Instruction	2,621,216	2,621,216
Support Services	2,174,564	2,174,564
Operation of Non-Instructional Services	6,937	6,937
Debt Service	207,326	207,326
TOTAL EXPENDITURES	5,010,043	5,010,043
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	303,756	303,756
<u>OTHER FINANCING SOURCES (USES)</u>		
Fund Transfers Out	(88,767)	(88,767)
TOTAL OTHER FINANCING SOURCES (USES)	(88,767)	(88,767)
<u>SPECIAL/EXTRAORDINARY ITEMS</u>		
Special Items	(42,000)	(42,000)
Extraordinary Items	-	-
	(42,000)	(42,000)
NET CHANGES IN FUND BALANCE	172,989	172,989
FUND BALANCES - BEGINNING	(26,352)	(26,352)
PRIOR PERIOD ADJUSTMENT (NOTE 12)	13,876	13,876
FUND BALANCES - ENDING	\$ 160,513	\$ 160,513

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
To the Statement of Activities
For the Year Ended June 30, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 172,989**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.

Depreciation expense	\$	(22,844)	
Less: capital outlays		(28,000)	(50,844)

In the statement of activities, certain operating expenses--compensated absences--are measured by the amounts incurred during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount incurred versus the amount used. (44,971)

Revenues not received soon enough after the close of the year to meet the currently available financial resources focus required under modified accrual reporting have not been recorded as revenue in the net change in fund balance. 51,303

Principal payments on debt are expenditures in the governmental funds, but are decreases to liabilities in the statement of net assets. 179,928

In the statement of activities, certain operating expenses are recognized when incurred versus the expenditures using the modified accrual basis of accounting in the fund statements which are recognized when the current financial resources are used. (23,998)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 284,407**

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Net Position
Proprietary Funds
As of June 30, 2018

	FOOD SERVICE FUND	TOTAL
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ -	\$ -
Investments	-	-
Due from Other Funds	-	-
Due from Other Governments	-	-
Other Receivables	32,016	32,016
Prepaid Expenses	-	-
Other Current Assets	-	-
TOTAL CURRENT ASSETS	\$ 32,016	\$ 32,016
	-----	-----
NON-CURRENT ASSETS:		
Building & Bldg. Improvements (Net)	\$ -	\$ -
Machinery & Equipment (Net)	-	-
Other Long-Term Receivables	-	-
TOTAL NON-CURRENT ASSETS	-	-
TOTAL ASSETS	\$ 32,016	\$ 32,016
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Due to Other Funds	\$ -	\$ -
Due to Other Governments	-	-
Accounts Payable	28,402	28,402
Deferred Revenue	-	-
TOTAL CURRENT LIABILITIES	28,402	28,402
	-----	-----
NON-CURRENT LIABILITIES:		
Long-Term Portion of Compensated Absences	-	-
Other Retirement Benefits	-	-
TOTAL NON-CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	\$ 28,402	\$ 28,402
<u>NET POSITION</u>		
Invested in Capital Assets, with No Related Debt	-	-
Restricted for Legal Purposes	-	-
Unrestricted	3,614	3,614
TOTAL NET POSITION	\$ 3,614	\$ 3,614

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
As of June 30, 2018

	FOOD SERVICE FUND	TOTAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ -	\$ -
Other Operating Revenues	3,080	3,080
TOTAL OPERATING REVENUES	3,080	3,080
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	30,856	30,856
Professional Services	-	-
Supplies	-	-
Food Costs	232,488	232,488
Other Operating Expenses	-	-
TOTAL OPERATING EXPENSES	263,344	263,344
OPERATING INCOME (LOSS)	(260,264)	(260,264)
	-----	-----
<u>NON-OPERATING REVENUES</u>		
Contributions and Donations	-	-
State Sources	6,186	6,186
Federal Sources	120,909	120,909
TOTAL NON-OPERATING REVENUES (EXPENSES)	127,095	127,095
NET LOSS BEFORE CONTRIBUTIONS	(133,169)	(133,169)
Capital Contributions	-	-
Transfers In (Out)	88,767	88,767
CHANGES IN NET POSITION	(44,402)	(44,402)
NET POSITION - BEGINNING	-	-
PRIOR PERIOD ADJUSTMENT (NOTE 12)	48,016	48,016
NET POSITION - ENDING	\$ 3,614	\$ 3,614

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Cash Flows
Proprietary Funds
As of June 30, 2018

	FOOD SERVICE FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Users	\$ 3,080	\$ 3,080
Cash Payments to Employees for Services	(30,856)	(30,856)
Cash Payments to Suppliers for Goods and Services	(204,086)	(204,086)
Cash Payments for Other Operating Expenses	-	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(231,862)	(231,862)
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Charges for Services	-	-
State Sources	6,839	6,839
Federal Sources	136,256	136,256
Interfund Receipts (Payments)	88,767	88,767
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	231,862	231,862
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	-	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ -	\$ -

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Cash Flows
Proprietary Funds
As of June 30, 2018

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

	FOOD SERVICE FUND	TOTAL
OPERATING INCOME (LOSS)	\$ (260,264)	(260,264)
 ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Depreciation and Net Amortization	-	-
Provision for Uncollectible Accounts	-	-
 CHANGE IN ASSETS AND LIABILITIES:		
(Increase) Decrease in Accounts Receivable	-	-
Increase (Decrease) in Interfund Payable	-	-
Increase (Decrease) in Accounts Payable	28,402	28,402
TOTAL ADJUSTMENTS	28,402	28,402
 NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	 \$ (231,862)	 \$ (231,862)

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2018

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE	BUDGET TO GAAP DIFFERENCE	ACTUAL
	ORIGINAL	FINAL		(NEGATIVE)		AMOUNTS GAAP BASIS
REVENUES						
Local Sources	4,728,300	\$ 4,728,300	\$ 4,979,101	\$ 250,801	\$ -	\$ 4,979,101
State Sources	50,000	50,000	108,500	58,500	-	108,500
Federal Sources	288,000	288,000	226,198	(61,802)	-	226,198
TOTAL REVENUES	<u>5,066,300</u>	<u>5,066,300</u>	<u>5,313,799</u>	<u>247,499</u>	<u>-</u>	<u>5,313,799</u>
EXPENDITURES						
Regular Programs	2,085,779	2,085,779	2,384,204	(298,425)	-	2,384,204
Special Programs	400,595	400,595	234,549	166,046	-	234,549
Other Instructional Programs	75,605	75,605	2,463	73,142	-	2,463
Support Services - Pupil Personnel	61,288	61,288	43,163	18,125	-	43,163
Support Services - Other	6,000	6,000	47,633	(41,633)	-	47,633
Support Services - Administration	579,255	579,255	702,733	(123,478)	-	702,733
Support Services - Pupil Health	88,296	88,296	84,028	4,268	-	84,028
Support Services - Business	164,400	164,400	191,610	(27,210)	-	191,610
Other Fiscal Services	-	-	84,704	(84,704)	-	84,704
Operation and Maintenance of Plant Services	855,444	855,444	993,087	(137,643)	-	993,087
Student Transportation Services	73,712	73,712	11,963	61,749	-	11,963
Support Services - Central	-	-	15,643	(15,643)	-	15,643
Student Activities	7,500	7,500	6,937	563	-	6,937
Other Expenses	36,293	36,293	-	36,293	-	-
Food Service	-	-	-	-	-	-
Debt Service	-	-	207,326	(207,326)	-	207,326
TOTAL EXPENDITURES	<u>4,434,167</u>	<u>4,434,167</u>	<u>5,010,043</u>	<u>(575,876)</u>	<u>-</u>	<u>5,010,043</u>
Excess (Deficiency) of Revenues over Expenditures	632,133	632,133	303,756	(328,377)	-	303,756
OTHER FINANCING SOURCES (USES)						
Transfers to Food Service Fund	-	-	(88,767)	(88,767)	-	(88,767)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(88,767)</u>	<u>(88,767)</u>	<u>-</u>	<u>(88,767)</u>
Special Items	-	-	(42,000)	(42,000)	-	(42,000)
Extraordinary Items	-	-	-	-	-	-
NET CHANGES IN FUND BALANCE	<u>632,133</u>	<u>632,133</u>	<u>172,989</u>	<u>(459,144)</u>	<u>-</u>	<u>172,989</u>
FUND BALANCE - JULY 1, 2017	<u>(632,133)</u>	<u>(632,133)</u>	<u>(26,352)</u>	<u>605,781</u>	<u>-</u>	<u>(26,352)</u>
PRIOR PERIOD ADJUSTMENT (NOTE 12)	<u>-</u>	<u>-</u>	<u>13,876</u>	<u>13,876</u>	<u>-</u>	<u>13,876</u>
FUND BALANCE - JUNE 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,513</u>	<u>\$ 160,513</u>	<u>\$ -</u>	<u>\$ 160,513</u>

The accompanying notes are an integral part of this financial statement.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

Note 1 – Background and Summary of Significant Accounting Policies

A. Background and Reporting Entity

Arts Academy Elementary Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997, whereby a charter is granted for a four-year period and may be renewed for additional five-year periods upon expiration. The School began operations in September 2015. For the year ended June 30, 2018, the School included grades K-5.

Arts Academy Elementary Charter School is a charter school which has financial accountability and control over all activities related to the students' education. The School receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the School is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement.

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements of the School are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School.

As required by generally accepted accounting principles, these financial statements are to present the Arts Academy Elementary Charter School (the primary government) and organizations for which the primary government is financially accountable. The School is financially accountable for an organization if the School appoints a voting majority of the organization's governing board and (1) the School is able to significantly influence the programs or services performed or provided by the organization and the School financially benefits from the organization, or (2) the School is legally entitled to or can otherwise access the organization's resources, the School is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization, or the School is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School in that the School approves their budget. The Arts Academy Elementary Charter School does not have any component units as of June 30, 2018.

B. Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues. These statements include the Government activities of the School except for fiduciary funds. The statements distinguish between those activities of the school that are governmental and those that are considered business-type activities.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

During the year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School at this more detailed level. The Fund financial statements presented are the School's General Fund and Food Service Fund.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The statement of net position presents the financial condition of the governmental and business-type activities of the School at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School's governmental activities and business-type activities of the School. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements:

Governmental Fund - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The School reports the following major governmental fund:

General Fund – The General Fund is the operating fund of the School and accounts for all general revenues and expenditures of the School.

Proprietary Funds - Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School's major enterprise fund is:

Food Service Fund – The Food Service Fund is used to account for the School's food service operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods to the student body on a continuing basis be financed primarily through user charges.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

Fiduciary Funds - Fiduciary funds reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School under a trust agreement for individuals, private organizations, or other Schools and are therefore not available to support the School's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School does not have any fiduciary funds as of June 30, 2018.

E. Method of Accounting

The School has adopted the standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities and changes in net position. It requires the classification of net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

These calculations are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

F. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each year of educational operation for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School's budget and reporting of its financial statements.

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the School Board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the Board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE-2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2017-18 budget transfers.

Encumbrances

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, except that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the School's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred.

G. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Cash

The School's cash is considered to be its balances at commercial banks.

I. Capital Assets

Capital assets, which include leasehold improvements, equipment and software, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. All assets purchased with a useful life greater than one year and costing more than \$2,500 would be capitalized. This does not include textbooks. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the School are depreciated or amortized using the straight-line method over the useful lives of the assets.

J. Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. The School did not have any unrelated business taxable income in the fiscal year presented.

K. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position.

L. Reclassification

Certain amounts may have been reclassified to conform to the June 30, 2018, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements on the modified accrual basis of accounting.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

M. Net Position

Net position represents the difference between assets plus deferred inflows and liabilities plus deferred outflows. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

N. Fund Balance

The Governmental Accounting Standards Board has established accounting and financial reporting standards for all governments that report governmental funds. They established criteria for classifying fund balances into the following specifically defined classifications:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts that are restricted externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The School's highest level of decision making is the Board of Directors.
- **Assigned** fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The School expresses this intent through board action and has not delegated this authority.
- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and School-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories.

The amounts shown in the columns in the following schedule represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.

- b) Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation or amortization expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

	TOTAL GOVERN- MENTAL FUNDS	LONG- TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANSACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Interest and Investment Earnings	\$ 983	\$ -	\$ -	\$ -	\$ 983
Fundraising Income (Net of Expenses)	600	-	-	-	600
Revenues from Student Activities	16,610	-	-	-	16,610
Miscellaneous	9,718	-	-	-	9,718
Contributions and Donations	-	-	-	-	-
Charges for Services	-	-	-	-	-
Local Education Agencies	4,913,359	-	-	-	4,913,359
INTERMEDIATE SOURCES:					
Charges for Services	-	-	-	-	-
Operating and Capital Grants and Contributions	37,831	-	-	-	37,831
STATE SOURCES:					
Operating and Capital Grants and Contributions	108,500	(50,140)	-	-	58,360
FEDERAL SOURCES:					
Operating and Capital Grants and Contributions	226,198	-	-	-	226,198
OTHER FINANCING SOURCES (USES)					
Proceeds from Long Term Financing	-	-	-	-	-
Transfers Out	(88,767)	-	-	-	(88,767)
Gain/Loss on Sale of Investments	-	-	-	-	-
TOTAL REVENUES	<u>5,225,032</u>	<u>(50,140)</u>	<u>-</u>	<u>-</u>	<u>5,174,892</u>
EXPENDITURES/EXPENSES					
Instruction	2,621,216	19,613	21,372	-	2,662,201
Instructional Student Support	174,824	808	-	-	175,632
Admin. & Fin'l Support Services	994,690	2,834	-	-	997,524
Oper. & Maint. of Plant Svcs.	965,087	268	1,472	-	966,827
Facilities Acquisition, Construction & Improvement	28,000	(28,000)	-	-	-
Transportation	11,963	-	-	-	11,963
Student Activities	6,937	-	-	-	6,937
Debt Service	207,326	-	-	(179,925)	27,401
Depreciation/Amortization - Unallocated	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	<u>5,010,043</u>	<u>(4,477)</u>	<u>22,844</u>	<u>(179,925)</u>	<u>4,848,485</u>
EXTRAORDINARY AND SPECIAL ITEMS					
Special Item (Note 13)	(42,000)	-	-	-	(42,000)
NET CHANGE FOR THE YEAR	<u>\$ 172,989</u>	<u>\$ (45,663)</u>	<u>\$ (22,844)</u>	<u>\$ 179,925</u>	<u>\$ 284,407</u>

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

Note 3 - Stewardship, Compliance, and Accountability

A. Compliance with finance related legal and contractual provisions

The School has no material violations of finance related legal and contractual provisions.

B. Deficit fund balance or net position of individual funds

At June 30, 2018 the general fund had a fund balance in the amount of \$160,513.

C. Budgetary Compliance

The School's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The School does not have any outstanding encumbrances at June 30, 2018.

Note 4 - Detailed Notes on All Funds and Account Groups

ASSETS

Cash and Cash Equivalents

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2018, none of the School's bank balances were exposed to custodial credit risk.

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the School's name		-
TOTAL	\$	-

Uninsured Amount above	\$	-
Plus: Insured Amount		30,434
Deposits in Transit		-
Undeposited Funds		-
Less: Outstanding Checks		(10,477)
Carrying Amount - Cash Balances		19,957
Plus: Petty Cash		-
TOTAL CASH PER FINANCIAL STATEMENTS	\$	19,957

Investments

Permitted investments for Pennsylvania Schools are defined in the Public School Code of 1949, as amended by Act 10 of 2017, as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.
5. Share of mutual funds whose investments are restricted to the above categories.
6. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
7. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
8. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
9. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
10. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
11. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
 - The investments of the company are the authorized investments listed above.
 - The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

12. Savings or demand deposits placed in accordance with the following conditions:

- The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
- The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, or the account of the public corporation or municipal authority.
- The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
- On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

Fair Value Reporting

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

As of June 30, 2018, the School did not have any investments.

Capital Assets

Capital asset balances and activity for the year ending June 30, 2018, were:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Capital Assets being depreciated:				
Leasehold Improvements	\$ 43,416	\$ -	\$ -	\$ 43,416
Furniture and Equipment	300,198	-	-	300,198
Construction in Progress	-	28,000	-	28,000
TOTAL CAPITAL ASSETS BEING DEPRECIATED OR AMORTIZED	343,614	28,000	-	371,614
Less Accumulated Depreciation/Amortization for:				
Leasehold Improvements	(2,943)	(1,472)	-	(4,415)
Furniture and Equipment	(45,118)	(21,372)	-	(66,490)
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	(48,061)	(22,844)	-	(70,905)
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION/AMORTIZATION	295,553	5,156	-	300,709
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION/AMORTIZATION	\$ 295,553	\$ 5,156	\$ -	\$ 300,709

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

*DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:	
Regular Programs	\$ 21,372
Other Programs	-
Special Education	-
Guidance Services	-
Psychological Services	-
Social Services	-
Support Services - Instructional Staff	-
Support Services - Administration	-
Board Services	-
Legal Services	-
Office of the Executive Director Services	-
Community Relations Services	-
Office of the Principal Services	-
Pupil Health Services	-
Support Services - Business	-
Operation of Building Services	1,472
Student Transportation Services	-
Support Services - Central	-
System-Wide Technology Services	-
Human Resources	-
Temporary Services	-
Student Activities	-
Depreciation/Amortization - Unallocated	-
TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES	\$ 22,844

LIABILITIES

Demand Loans

On July 15, 2015, the School entered into an agreement with Capital with Purpose, a New Jersey non-profit corporation, for a loan of \$200,000, to purchase furniture, fixtures and equipment. Interest on the loan is payable at a rate of 8%. As of June 30, 2018, the outstanding balance of the loan is \$20,075 and has been paid off as of September 1, 2018.

Defined Contribution Pension Plan

As established by board resolution and state approval the School will contribute to a 403(b) defined contribution employee pension plan. The School's contributions to the plan totaled \$116,210 for the year ended June 30, 2018.

Compensated Absences

Sick days may be rolled over from one year to the next year up to 35 days with the approval of the Executive Director. An employee who leaves Arts Academy Elementary Charter School in good standing will be entitled to half the salary of a substitute teacher for unused sick days. Unused personal days will be rolled over from one year to the next as sick days. As of June 30, 2018, the School has a long-term liability in the amount of \$44,971 relating to unused sick days.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

Note 5 - Leases

Lease Commitments

Building Lease

On June 8, 2015, the School entered into a 354 month lease agreement with West Union Development, LP. The lease commenced August 1, 2015 and ends January 31, 2045, for the building located at 601 Union Street, Allentown, Pennsylvania. The operating lease provides that the School pay an annual rent of \$500,000 the first year, \$575,000 in years 2 and 3, \$550,000 in years 4 and 5 and subsequent to that a 3% annual increase every 5 years after year 5.

The remaining payments on this lease as of June 30, 2018 are:

FISCAL YEAR	AMOUNT
2018-19	\$ 552,084
2019-20	550,000
2020-21	575,208
2021-22	577,500
2022-2027	2,942,838
2027-2032	3,089,981
2032-2037	3,244,499
2037-2042	3,406,715
2042 and thereafter	1,813,376
TOTAL	\$ 16,752,201

Copier Lease

On June 30, 2017, the School entered into a 24 month lease agreement with Edwards Business Systems. The lease commenced July 1, 2018 and ends June 30, 2020. The operating lease provides that the School pay a monthly fee of \$2,074.31.

The remaining payments on this lease as of June 30, 2018 are:

FISCAL YEAR	AMOUNT
2018-19	\$ 24,892
2019-20	24,892
TOTAL	\$ 49,784

Note 6 – Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage from inception in any of the School's policies.

Note 7 – Local Educational Agencies Revenue

Charter schools are funded by the local public school districts in which each student resides. The rate per student is determined annually and is based on the budgeted total expenditure per average daily membership of the prior school year for each school district. The annual rate is paid monthly by each

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

sending school district and is prorated if a student enters or leaves during the year. Total tuition revenue from other local education agencies was \$4,913,359.

Note 8 – Government Grants and Reimbursement Programs

The School participates in numerous federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs for retirement expenses, and facility lease costs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivables may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 9- Contingencies

From time to time the School is a party to legal proceedings including claims involving employment and other matters. The School carries insurance coverage against all such claims. Any such claims are vigorously defended by the School and its indemnities. Management believes that such legal proceedings to which it may become party to would not have a material adverse affect upon its financial position or results of operations. According to the School's legal counsel, as of June 30, 2018 there was no pending or threatened litigation.

Note 10 – Restricted Net Position

Invested in Capital Assets, Net of Related Debt

The component of this restriction in the governmental activities column is total capital assets (net of depreciation and amortization) of \$300,709 less related debt of \$20,075.

Other Restrictions

This restriction of \$37,831 pertains to federal grant receivables at year end.

Note 11 – Governmental Fund Balances

Restricted Fund Balance

Restricted for use in Federal Program \$37,831.

The School's highest level of decision making is the Board of Directors.

A resolution of the Board of Directors is required to establish, modify or rescind a fund balance commitment or assignment.

As of June 30, 2018 the entire fund balance was unassigned.

Note 12 – Prior Period Adjustments

During the fiscal year ending June 30, 2018, it was identified that two reimbursements that pertain to the prior period were received and recorded in the current school year. This required that an adjustment in the opening net assets and fund balances be reported. One amount of \$13,876, was for an unemployment tax

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2018

credit for overpayment of tax that applied to the 2016-17 school year. The other was \$48,016 for breakfast and lunch subsidies for May and June of 2017.

Note 13 – Special Item (Theft Loss)

During the 2017-18 fiscal year there was an unauthorized transaction for \$42,000, which the Board is aware of. Currently the transaction is being investigated in conjunction with law enforcement. The ability of recovery at this point has not been determined.

Note 14 – Subsequent Events

Subsequent events have been evaluated through November 9, 2018, which is the date the financial statements were available to be issued.



November 9, 2018

Board of School Directors
Arts Academy Elementary Charter School
601 W. Union Street
Allentown, PA 18101

**INDEPENDENT AUDITOR'S 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**

We have audited the basic financial statements of the governmental activities and the general fund of the Arts Academy Elementary Charter School, as of and for the year ended June 30, 2018, which collectively comprise the Arts Academy Elementary Charter School's basic financial statements and have issued our report thereon dated November 9, 2018. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Arts Academy Elementary Charter 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 Arts Academy Elementary Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Academy Elementary Charter 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 over financial reporting 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 a material weakness 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.

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arts Academy Elementary Charter 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

November 9, 2018

SUPPLEMENTAL INFORMATION

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2018

REVENUES

LOCAL SOURCES:

Interest/Dividends	\$ 983	
Fundraising (Net of Expenses)	600	
Revenues from Student Activities	16,610	
Revenue Received from Intermediate Sources - Federal	37,831	
Tuition Revenue Received Directly from Students	-	
Tuition Revenue Received from Other LEAs	4,913,359	
Contributions	-	
Miscellaneous	<u>9,718</u>	
TOTAL LOCAL SOURCE REVENUE		\$ 4,979,101

STATE SOURCES:

Rental Subsidies	100,838	
Other State Grants	-	
Health Subsidy	<u>7,662</u>	
TOTAL STATE SOURCE REVENUE		108,500

FEDERAL SOURCES:

Title I	192,188	
Title II	24,010	
Title IV	<u>10,000</u>	
TOTAL FEDERAL SOURCE REVENUE		<u>226,198</u>

TOTAL REVENUES **\$ 5,313,799**

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2018

EXPENDITURES

Regular Programs	\$	2,384,204
Special Programs		234,549
Other Instructional Programs		2,463
Support Services - Pupil Personnel		43,163
Support Services - Other		47,633
Support Services - Administration		702,733
Support Services - Pupil Health		84,028
Support Services - Business		191,610
Other Fiscal Services		84,704
Operation and Maintenance of Plant Services		993,087
Student Transportation Services		11,963
Support Services - Central		15,643
Student Activities		6,937
Debt Service		<u>207,326</u>

TOTAL EXPENDITURES \$ 5,010,043

**EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES** \$ 303,756

OTHER FINANCING SOURCES (USES)

Transfers to Food Service Fund	\$	<u>(88,767)</u>
TOTAL OTHER FINANCING SOURCES		(88,767)

OTHER EXTRAORDINARY AND SPECIAL ITEMS

Special Item (Note 13)	\$	<u>(42,000)</u>
TOTAL EXTRAORDINARY AND SPECIAL ITEMS		<u>(42,000)</u>

NET CHANGES IN FUND BALANCE \$ 172,989

FUND BALANCE - JULY 1, 2017 (26,352)

PRIOR PERIOD ADJUSTMENT (NOTE 12) 13,876

FUND BALANCE - JUNE 30, 2018 \$ 160,513

ARTS ACADEMY ELEMENTARY CHARTER SCHOOL
Statement of Revenues, Expenses and Changes in Net Position
Food Service Fund
For the Year Ended June 30, 2018

NET POSITION - JULY 1, 2017		\$ -
REVENUES		
Lunch Sales	\$ 3,080	
State Lunch Subsidies	6,186	
Federal Lunch Subsidies	<u>120,909</u>	
TOTAL REVENUES		<u>130,175</u>
TOTAL FUNDS AVAILABLE		130,175
EXPENSES AND OPERATING TRANSFERS		
Salaries and Benefits	30,856	
Professional Services	-	
Supplies	-	
Food Costs	232,488	
Other Operating Expenses	<u>-</u>	<u>263,344</u>
NET INCOME/LOSS FROM OPERATING		(133,169)
NON-OPERATING REVENUES		
Transfers In		<u>88,767</u>
CHANGES IN NET POSITION		(44,402)
NET POSITION - JULY 1, 2017		-
PRIOR PERIOD ADJUSTMENT (NOTE 12)		<u>48,016</u>
NET POSITION - JUNE 30, 2018		<u><u>\$ 3,614</u></u>