

BUFFALO CREEK ACADEMY CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2022



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

November 29, 2022

To the Board of Trustees and Management
Buffalo Creek Academy Charter School

In planning and performing our audit of the consolidated financial statements of Buffalo Creek Academy Charter School (the “Charter School”) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School’s internal control over financial reporting (internal control) as a basis for designing 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 Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiency in the entity’s internal control to be a material weakness:

Material Auditor Adjustments

During our audit, we noted there were several significant or material auditor adjustments required to be recorded affecting grants and other receivables, accounts payable and accrued expenses, accrued payroll and benefits, net assets, revenues and expenses.

Recommendations

In order to provide accurate accounting information, we recommend the Charter School establishes a more effective review and reconciliation process as a customary part of the accounting process. This would involve preparing monthly reconciliations of all significant accounts and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments. We also recommend management reviews the year-end closing entries to ensure all appropriate accruals and payables have been recorded. Finally, the Charter School should ensure their internal accounting records are in agreement with the audited financial statements.

* * * * *

This communication is intended solely for the information and use of the Board of Trustees, the Finance Committee and Management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

BUFFALO CREEK ACADEMY CHARTER SCHOOL

BUFFALO, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2022 (Consolidated)
(With Comparative Totals for 2021) (Unconsolidated)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Buffalo Creek Academy Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Buffalo Creek Academy Charter School, which comprise the consolidated statement of financial position as of June 30, 2022 and the related consolidated statements of activities and changes in net assets (deficiency), functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Buffalo Creek Academy Charter School as of June 30, 2022 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Buffalo Creek Academy Charter School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Buffalo Creek Academy Charter School's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Buffalo Creek Academy Charter School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Buffalo Creek Academy Charter School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Buffalo Creek Academy Charter School's June 30, 2021 (unconsolidated) financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 29, 2021. In our opinion, the summarized comparative information presented herein as of June 30, 2021 and for the period from January 2, 2020 (date of inception) to June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2022 on our consideration of Buffalo Creek Academy Charter 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 the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Buffalo Creek Academy Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 29, 2022

BUFFALO CREEK ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022
(With Comparative Totals for 2021)

<u>ASSETS</u>	June 30, 2022 (Consolidated)	June 30, 2021 (Unconsolidated)
<u>CURRENT ASSETS</u>		
Cash	\$ 176,728	\$ 245,081
Grants and other receivables	272,722	301,716
Prepaid expenses and other current assets	<u>16,000</u>	<u>17,781</u>
TOTAL CURRENT ASSETS	465,450	564,578
 <u>PROPERTY AND EQUIPMENT, net</u>	 427,303	 149,060
 <u>OTHER ASSETS</u>		
Cash in escrow	50,000	-
Other assets	<u>25,033</u>	<u>18,000</u>
TOTAL ASSETS	<u>\$ 967,786</u>	<u>\$ 731,638</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>		
<u>CURRENT LIABILITIES</u>		
Current portion of long term debt	\$ 174,422	\$ 464,845
Revolving loan	414,113	-
Accounts payable and accrued expenses	165,848	54,347
Accrued payroll and benefits	80,028	54,653
Accrued interest payable	<u>24,103</u>	<u>12,578</u>
TOTAL CURRENT LIABILITIES	858,514	586,423
 <u>DEFERRED LEASE LIABILITY</u>	 <u>83,366</u>	 <u>-</u>
TOTAL LIABILITIES	941,880	586,423
 <u>NET ASSETS (DEFICIENCY)</u>		
Without donor restrictions	(2,069)	115,215
With donor restrictions	<u>27,975</u>	<u>30,000</u>
TOTAL NET ASSETS	<u>25,906</u>	<u>145,215</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 967,786</u>	<u>\$ 731,638</u>

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

BUFFALO CREEK ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	Year ended June 30, 2022			Period From January 2, 2020 (date of inception) to June 30, 2021
	(Consolidated)			(Unconsolidated)
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains and other support:				
Public school district:				
Resident student enrollment	\$ 1,637,017	\$ -	\$ 1,637,017	\$ 934,899
Students with disabilities	125,687	-	125,687	191,669
Grants and contracts:				
Federal - Title and IDEA	72,663	-	72,663	63,175
Federal - other	917,720	-	917,720	782,714
TOTAL REVENUE, GAINS AND OTHER SUPPORT	2,753,087	-	2,753,087	1,972,457
Expenses:				
Program:				
Regular education	1,669,285	-	1,669,285	848,191
Special education	220,405	-	220,405	197,590
TOTAL PROGRAM SERVICES	1,889,690	-	1,889,690	1,045,781
Management and general	1,170,978	-	1,170,978	1,384,600
TOTAL OPERATING EXPENSES	3,060,668	-	3,060,668	2,430,381
DEFICIT FROM SCHOOL OPERATIONS	(307,581)	-	(307,581)	(457,924)
Support and other revenue:				
Contributions:				
Foundations	20,000	114,910	134,910	526,750
Individuals	8,612	44,750	53,362	1,000
Miscellaneous income	-	-	-	13,389
Paycheck Protection Program loan forgiveness	-	-	-	62,000
Net assets released from restriction	161,685	(161,685)	-	-
TOTAL SUPPORT AND OTHER REVENUE	190,297	(2,025)	188,272	603,139
CHANGE IN NET ASSETS	(117,284)	(2,025)	(119,309)	145,215
Net assets at beginning of year	115,215	30,000	145,215	-
NET ASSETS (DEFICIENCY) AT END OF YEAR	\$ (2,069)	\$ 27,975	\$ 25,906	\$ 145,215

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

BUFFALO CREEK ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	Year ended June 30, 2022						Period from January 2, 2020 (date of inception) to June 30, 2021
	Program Services			Supporting Services			
	No. of Positions	Regular Education	Special Education	Sub-total	Management and General	Total (Consolidated)	Total (Unconsolidated)
Personnel services costs:							
Administrative staff personnel	12	\$ 213,783	\$ 29,152	\$ 242,935	\$ 451,167	\$ 694,102	\$ 649,022
Instructional personnel	<u>12</u>	<u>577,202</u>	<u>76,185</u>	<u>653,387</u>	<u>-</u>	<u>653,387</u>	<u>481,227</u>
Total salaries and wages	24	790,985	105,337	896,322	451,167	1,347,489	1,130,249
Fringe benefits and payroll taxes		147,452	19,637	167,089	84,104	251,193	265,298
Retirement		7,818	1,042	8,860	4,459	13,319	16,447
Legal services		-	-	-	103,618	103,618	50,927
Accounting/Audit services		-	-	-	27,000	27,000	23,340
Other Purchased/Professional/Consulting Services		25,813	3,407	29,220	262,967	292,187	162,076
Building rent		271,791	35,874	307,665	54,294	361,959	94,913
Repairs and maintenance		77,637	10,248	87,885	15,509	103,394	44,530
Insurance		36,745	4,850	41,595	7,341	48,936	25,622
Utilities		3,161	417	3,578	631	4,209	40,485
Supplies/Materials		59,030	7,791	66,821	-	66,821	95,680
Equipment/Furnishings		5,156	680	5,836	648	6,484	18,177
Staff development		28,118	2,666	30,784	30,809	61,593	76,978
Marketing/Recruitment		23,157	3,057	26,214	26,236	52,450	124,213
Technology		10,839	1,431	12,270	4,090	16,360	66,415
Student services		83,290	10,994	94,284	-	94,284	31,509
Office expense		17,110	2,258	19,368	58,104	77,472	101,091
Depreciation		45,391	5,991	51,382	32,851	84,233	25,097
Other		<u>35,792</u>	<u>4,725</u>	<u>40,517</u>	<u>7,150</u>	<u>47,667</u>	<u>37,334</u>
		<u>\$ 1,669,285</u>	<u>\$ 220,405</u>	<u>\$ 1,889,690</u>	<u>\$ 1,170,978</u>	<u>\$ 3,060,668</u>	<u>\$ 2,430,381</u>

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

BUFFALO CREEK ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	Year ended June 30, 2022 <small>(Consolidated)</small>	Period from January 2, 2020 (date of inception) to June 30, 2021 <small>(Unconsolidated)</small>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (119,309)	\$ 145,215
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation	84,233	25,097
Paycheck Protection Program loan forgiveness		(62,000)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	28,994	(301,716)
Prepaid expenses and other current assets	1,781	(17,781)
Other assets	(25,033)	(18,000)
Accounts payable and accrued expenses	111,501	54,347
Accrued payroll and benefits	25,375	54,653
Accrued interest payable	11,525	12,578
Deferred lease liability	83,366	-
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	202,433	(107,607)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(344,476)	(174,157)
NET CASH USED FOR INVESTING ACTIVITIES	(344,476)	(174,157)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayment of long-term debt	(290,423)	-
Borrowings on long-term debt	-	464,845
Borrowings on revolving loan	550,000	-
Repayments on revolving loan	(135,887)	-
Borrowings on Paycheck Protection Program loan payable	-	62,000
NET CASH PROVIDED FROM FINANCING ACTIVITIES	123,690	526,845
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(18,353)	245,081
Cash and restricted cash at beginning of year	245,081	-
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 226,728</u>	<u>\$ 245,081</u>

BUFFALO CREEK ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	Year ended June 30, 2022 (Consolidated)	Period from January 2, 2020 (date of inception) to June 30, 2021 (Unconsolidated)
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	\$ 11,461	\$ -
Reconciliation of cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 176,728	\$ 245,081
Cash in escrow	50,000	-
Total cash and restricted cash shown in the statement of cash flows	\$ 226,728	\$ 245,081
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Other assets transferred to property and equipment	\$ 18,000	\$ -

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

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 (Consolidated)
(With Comparative Totals for 2021) (Unconsolidated)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Buffalo Creek Academy Charter School (the “BCACS”) is an educational corporation that operates as a charter school in Buffalo, New York. On January 2, 2020 the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years through June 30, 2025 and renewable upon expiration. Through rigor and structure, BCACS prepares fifth through twelfth grade students to graduate from college and positively impact the community.

Friends of Buffalo Creek, Inc. (“Friends”) is a Not-for-Profit organization that operates as a separate legal entity from BCACS. Friends was formed on December 21, 2020 and began operations in September 2021 with the sole purpose of undertaking and conducting activities for charitable purposes for BCACS.

The accompanying consolidated financial statements include the accounts of BCACS and Friends (collectively referred to as the “Charter School”). For the year ended June 30, 2022 the financial activity within Friends was immaterial to the consolidated financial statements and; therefore, was not included in the consolidated financial statements for the year ended June 30, 2022.

Financial statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

These classes of net assets are defined as follows:

Net Assets Without Donor Restrictions – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current net assets without donor restrictions for specific purposes, projects or investment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had \$27,975 and \$30,000 of net assets with donor restrictions at June 30, 2022 and 2021, respectively.

Revenue recognition

Revenue from Exchange Transactions: The Charter School recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)

(With Comparative Totals for 2021) (Unconsolidated)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

The Charter School records substantially all revenue over time as follows:

Public school district revenue

The Charter School recognizes revenue as educational programming is provided to students throughout the year. The Charter School earns public school district revenue based on the approved per pupil tuition rate of the public-school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the Charter School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the Charter School and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the Charter School to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

The following table summarizes contract balances:

	June 30,	
	2022	2021
	(Consolidated)	(Unconsolidated)
Grants and other receivables	\$ -	\$ 12,087

Contributions

The Charter School recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions and unconditional promises to give are recorded as revenue in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as revenue without donor restrictions.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restriction.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)

(With Comparative Totals for 2021) (Unconsolidated)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Grant revenue

Some of the Charter School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Charter School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants and other receivables in the accompanying statement of financial position. There were no revenues deferred at June 30, 2022 and 2021. The Charter School received cost-reimbursement grants of approximately \$5,837 and \$33,737 that have not been recognized at June 30, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred.

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School is required to maintain cash in an escrow account in accordance with the terms of its charter agreement. The agreement requires \$25,000 be placed in escrow each of the first three years of operations and a balance of \$75,000 be maintained to fund any audit and legal expenses incurred should the Charter School cease operations and dissolve. As of June 30, 2022, the Charter School has funded \$50,000. As of June 30, 2021, the Charter School had not funded its escrow account; however did receive a waiver from its authorizer allowing the Charter School to fund the escrow for the first year of operations by November 30, 2021.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2022 and 2021.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to five years. Major renewals and betterments are capitalized, while repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)
(With Comparative Totals for 2021) (Unconsolidated)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require “specialized skills” and would typically not be purchased if they were not contributed. In addition, the Charter School receives special education, transportation, speech, occupational therapy and food services from the local districts.

Deferred lease liability

The Charter School leases its facility. The lease contains pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability. The amount of additional rent expense in excess of amounts paid under the lease was \$83,366 for the year ended June 30, 2022.

Tax exempt status

BCACS and Friends are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income.

BCACS and Friends file Form 990 tax returns in the U.S. federal jurisdiction and Friends also files in New York State. The tax returns for the years ended June 30, 2021 through June 30, 2022 are still subject to potential audit by the IRS and NYS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$52,400 for the year ended June 30, 2022 and \$124,200 for the period from January 2, 2020 (date of inception) to June 30, 2021.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparatives for the period ended June 30, 2021

The financial statements include certain prior year summarized comparative information in total but not by net asset or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School’s financial statements for the period ended June 30, 2021, from which the summarized information was derived.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)

(With Comparative Totals for 2021) (Unconsolidated)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Adoption of new accounting standard - gifts-in-kind

In September 2020, the FASB issued a new accounting update to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind. The update requires not-for-profit entities to present contributed nonfinancial assets separately on the statement of activities, apart from contributions of cash and other financial assets. In addition, the update requires not-for-profit entities to disclose in the notes to the financial statements a breakout of the different types of gifts-in-kind recognized, any donor restrictions associated with the gift, the valuation technique(s) used to arrive at the fair value measure, whether or not the gift-in-kind was monetized, and any policies on monetization. The update is effective for fiscal years beginning after June 15, 2021 and is being applied on a retrospective basis. The Charter School adopted this standard during the year ended June 30, 2022.

New accounting pronouncement – leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School’s financial position or results of operations.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through November 29, 2022, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted except as disclosed in Notes D and E.

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter School’s main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of teaching, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter School’s cash.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2022 and 2021:

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)
(With Comparative Totals for 2021) (Unconsolidated)

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

	June 30,	
	2022	2021
	(Consolidated)	(Unconsolidated)
Cash	\$ 176,728	\$ 245,081
Grants and other receivables	<u>272,722</u>	<u>301,716</u>
Total financial assets available within one year	449,450	546,797
Less:		
Amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	<u>(27,975)</u>	<u>(30,000)</u>
Total amounts unavailable to management for general expenditures within one year	<u>(27,975)</u>	<u>(30,000)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 421,475</u>	<u>\$ 516,797</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	2022	2021
	(Consolidated)	(Unconsolidated)
Furniture and fixtures	\$ 120,747	\$ 34,066
Equipment	5,181	-
Computer equipment	274,901	93,597
Vehicles	<u>135,804</u>	<u>46,494</u>
	536,633	174,157
Less accumulated depreciation	<u>109,330</u>	<u>25,097</u>
	<u>\$ 427,303</u>	<u>\$ 149,060</u>

Total depreciation expense was \$84,233 for the year ended June 30, 2022 and \$25,097 for the period from January 2, 2020 (date of inception) to June 30, 2021.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)

(With Comparative Totals for 2021) (Unconsolidated)

NOTE D: REVOLVING LOAN

On January 12, 2022, the Charter School entered into an agreement with a third party for a revolving loan available through January 31, 2023. The revolving loan allows the Charter School to draw up to \$750,000. The revolving loan bears interest of 5.70% plus the prime rate (effective rate of 10.45% at June 30, 2022). At June 30, 2022 the Charter School had an outstanding balance of \$414,113. Payments are required, based on the total outstanding principal amount of the loan and accrued interest, set by the lender on a monthly basis. The note is secured by the Charter School's assets. The revolving loan is subject to reporting and financial covenants. At June 30, 2022, the Charter School was not in compliance with certain of these covenants. On October 28, 2022, the Charter School renewed its revolving loan through October 24, 2024 with the same terms. The reporting and financial covenants were modified under this new agreement.

NOTE E: LONG TERM DEBT

In April 2020, the Charter School entered into a grid promissory note with a third party. The amount of this note as of June 30, 2022 and 2021 was \$174,422 and \$464,845, respectively, and bears interest at 2.50% per annum. The note had a maturity date of June 30, 2022 at which time all unpaid principal and accrued interest were due. On July 6, 2022, the Charter School paid off the remaining balance of the loan. The note was secured by certain federal funding. The principal balance of the note and the accrued interest are included in the accompanying statement of financial position at June 30, 2022 and 2021.

NOTE F: NET ASSETS

Net assets without donor restrictions consist of the following:

	June 30,	
	2022	2021
	(Consolidated)	(Unconsolidated)
Undesignated net assets	\$ (429,372)	\$ (33,845)
Invested property and equipment	427,303	149,060
	<u>\$ (2,069)</u>	<u>\$ 115,215</u>

Net assets with donor restrictions consist of the following:

	June 30,	
	2022	2021
	(Consolidated)	(Unconsolidated)
Subject to expenditure for specified purpose:		
Bus campaign	\$ 690	\$ 30,000
Professional development	24,485	-
Winter tournament	2,800	-
	<u>\$ 27,975</u>	<u>\$ 30,000</u>

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)

(With Comparative Totals for 2021) (Unconsolidated)

NOTE G: SCHOOL FACILITIES

Effective July 1, 2020, the Charter School entered into a rental agreement with a third party for temporary space for six months and later extended the agreement for another six months at a monthly rate of \$7,831 through June 30, 2021. Rent expense incurred under this agreement for the period from January 2, 2020 (date of inception) to June 30, 2021 was \$93,972.

In November 2020, the Charter School entered into a lease agreement with a third party to rent a facility commencing on the date the Charter School takes possession of the premises. The Charter School moved into the facility during July 2021. A security deposit of \$25,033 was paid relative to this lease. The base monthly rent for the first year is \$21,032, and total rent expense incurred was \$361,959 for the year ended June 30, 2022. Annual payments escalate through June 2031 with the option to extend for one five-year renewal term and the option to purchase after the fifteen-year term.

The future minimum payments required under the lease agreement is approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 397,000
2024	397,000
2025	397,000
2026	397,000
2027	403,000
Thereafter	1,614,000
	<u>\$ 3,605,000</u>

NOTE H: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE I: CONCENTRATIONS

At June 30, 2022 and 2021, approximately 93% and 83%, respectively, of grants and other receivables are due from the Federal government, relating to certain grants. For the year ended June 30, 2022, 34% and 60% of total revenue and support came from federal government grants and per-pupil funding provided by New York State, respectively. For the period ended June 30, 2021, 33%, 44% and 15% of total revenue and support came from government grants, per-pupil funding provided by New York State and one donor, respectively. The per-pupil rate is set annually by New York State based on the school district in which the Charter School's students are located.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022 (Consolidated)

(With Comparative Totals for 2021) (Unconsolidated)

NOTE J: RETIREMENT PLAN

The Charter School sponsors a 403(b) retirement plan (the “Plan”) for its employees. All employees are immediately eligible to participate in the Plan. The Charter School matches up to 3% of employee deferrals. The Charter School may also elect to make additional contributions to the plan on a discretionary basis. The Charter School contributed \$13,319 to the Plan for the year ended June 30, 2022 and \$16,447 for the period from January 2, 2020 (date of inception) to June 30, 2021.

NOTE K: OPERATING LEASES

The Charter School leases office equipment under non-cancelable lease agreements at a monthly cost of approximately \$240. The agreements renew annually unless terminated by the Charter School.

NOTE L: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

NOTE M: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2023.

In response to the COVID-19 outbreak, in April 2020, the Charter School applied for and was approved by a bank for a loan of \$62,000 through the Paycheck Protection Program established by the Small Business Administration. The loan had a maturity of 2 years and an interest rate of 1%. The loan had the potential for forgiveness provided certain requirements were met by the Charter School. The loan and all accrued interest was forgiven in full on March 23, 2021 and is included in the accompanying statement of activities and changes in net assets as Paycheck Protection Program loan forgiveness for the period from January 2, 2020 (date of inception) to June 30, 2021.

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Charter School has recognized \$419,333 and \$60,602 of revenue relative to ESSER grants during the year ended June 30, 2022 and the period ended June 30, 2021, respectively.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Buffalo Creek Academy Charter School

We have audited the consolidated financial statements of Buffalo Creek Academy Charter School as of and for the year ended June 30, 2022, and have issued our report thereon dated November 29, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of activities hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2022.

We have audited the (unconsolidated) financial statements of Buffalo Creek Academy Charter School as of June 30, 2021 and for the period from January 2, 2020 (date of inception) to June 30, 2021, and have issued our report thereon dated October 29, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the (unconsolidated) financial statements as a whole. The schedule of activities hereinafter is presented for purposes of additional analysis and is not a required part of the (unconsolidated) financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the (unconsolidated) financial statements. The information has been subjected to the auditing procedures applied in the audit of the (unconsolidated) financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the (unconsolidated) financial statements or to the (unconsolidated) financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the (unconsolidated) financial statements for the period from January 2, 2020 (date of inception) to June 30, 2021.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
November 29, 2022

BUFFALO CREEK ACADEMY CHARTER SCHOOL

SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2022 AND 2021 AND THE PERIOD FROM
JANUARY 2, 2020 (DATE OF INCEPTION) TO JUNE 30, 2021

	Year ended June 30,		Period from January 2, 2020 (date of inception) to June 30,
	2022	2021	2020
	(Consolidated)	(Unconsolidated)	(Unconsolidated)
Revenue, gains and other support:			
Public school district:			
Resident student enrollment	\$ 1,637,017	\$ 934,899	\$ -
Students with disabilities	125,687	191,669	-
Grants and contracts:			-
Federal - Title and IDEA	72,663	63,175	-
Federal - other	917,720	618,286	164,428
TOTAL REVENUE, GAINS AND OTHER SUPPORT	2,753,087	1,808,029	164,428
Personnel services costs:			
Administrative staff personnel	694,102	425,357	223,665
Instructional personnel	653,387	481,227	-
Total salaries and wages	1,347,489	906,584	223,665
Fringe benefits and payroll taxes	251,193	231,307	33,991
Retirement	13,319	16,447	-
Legal services	103,618	45,098	5,829
Accounting/Audit services	27,000	21,000	2,340
Other Purchased/Professional/Consulting Services	292,187	139,609	22,467
Building rent	361,959	93,972	941
Repairs and maintenance	103,394	44,530	-
Insurance	48,936	22,160	3,462
Utilities	4,209	40,485	-
Supplies/Materials	66,821	95,288	392
Equipment/Furnishings	6,484	11,196	6,981
Staff development	61,593	69,514	7,464
Marketing/Recruitment	52,450	65,484	58,729
Technology	16,360	56,731	9,684
Student services	94,284	24,711	6,798
Office expense	77,472	99,188	1,903
Depreciation	84,233	25,097	-
Other	47,667	29,452	7,882
TOTAL OPERATING EXPENSES	3,060,668	2,037,853	392,528
DEFICIT FROM SCHOOL OPERATIONS	(307,581)	(229,824)	(228,100)
Support and other revenue:			
Contributions:			
Foundations	134,910	126,750	400,000
Individuals	53,362	1,000	-
Miscellaneous income	-	9,545	3,844
Paycheck Protection Program loan forgiveness	-	62,000	-
TOTAL SUPPORT AND OTHER REVENUE	188,272	199,295	403,844
CHANGE IN NET ASSETS	\$ (119,309)	\$ (30,529)	\$ 175,744

BUFFALO CREEK ACADEMY CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2022



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



November 29, 2022

Board of Trustees
Buffalo Creek Academy Charter School

We have audited the consolidated financial statements of Buffalo Creek Academy Charter School as of and for the year ended June 30, 2022 and have issued our report thereon dated November 29, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 29, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Buffalo Creek Academy Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a material weakness noted during our audit in a separate letter to you dated November 29, 2022.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence. Safeguards in place to eliminate or reduce threats to independence to an acceptable level include a skilled, knowledgeable and experienced CEO and outsourced finance team who reviews the draft financial statements prior to issuance and accepts responsibility for them.

Significant Risks Identified

We have identified the following significant risks:

- Management override
- Improper revenue recognition
- Improper allocation of expenses to grants
- Misappropriation of assets

Professional auditing standards require that we identify and assess risks and design and perform our audit procedures to assess those risks. The identification of risk does not mean that it has occurred, but rather it has the potential to impact the consolidated financial statements.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Buffalo Creek Academy Charter School is included in Note A to the financial statements. As described in Note A to the consolidated financial statements, during the year the Charter School adopted new guidance for gifts-in-kind (ASU 2020-07). No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the consolidated financial statements are the allocation of operating expenses for the statement of functional expenses and the collectability of grants and other receivables. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic consolidated financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Buffalo Creek Academy Charter School's consolidated financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

Identified or Suspected Fraud

We have not identified or obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

Although we ultimately received full cooperation of management and believe that we were given direct and unrestricted access to Buffalo Creek Academy Charter School's officers and senior management, we experienced significant difficulties in the performance of the audit owing to unreasonable delays by management in the overall audit process. These unreasonable delays, such as a lack of responsiveness to audit inquiries, significantly added to the time and related cost of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no uncorrected misstatements.

In addition, professional standards require us to communicate to you all significant, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following schedule details significant misstatements that we identified as a result of our audit procedures and were brought to the attention of and corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Buffalo Creek Academy Charter School's consolidated financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Buffalo Creek Academy Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Buffalo Creek Academy Charter School's auditors.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

Expense Reimbursement Approval

During our audit we noted two instances where a check payable to the CEO was also signed by the CEO. Per the Charter School's Financial Policies and Procedures Manual, checks payable to the CEO must be signed by the Board Treasurer. We noted one of the two reimbursements had receipts that totaled the check amount without exception, however one of the reimbursements did not have any receipts and the "no receipt form" was not approved by the Board Treasurer. We also noted three employee reimbursement forms for the CEO had no indications of approval on them. In order to ensure all transactions are being approved by the appropriate authority, all checks made out to the CEO should be signed by the Board Treasurer. In addition, the CEO's expense reimbursement forms and receipts should be reviewed and approved by the Board Treasurer.

* * * * *

Should you desire further information concerning these matters, Michelle Cain or Kurt Button will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee and Management of Buffalo Creek Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

Buffalo Creek Academy Charter School
Summary of Significant Audit Adjustments
June 30, 2022

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expense
To adjust for prior audit entries not recorded	\$ 20,000	\$ -	\$ 8,996	\$ (20,000)	\$ (31,004)
To reduce CSP revenue to match total approved budget	(34,706)	-	-	(34,706)	-
To adjust rent expense to actual	-	(21,803)	-	-	(21,803)
To record accrued payroll for last week of June 2022	-	64,484	-	-	64,484
To reverse accrued payroll entry booked in fiscal 2021	-	10,000	-	-	10,000
To record legal expenses related to fiscal year 2022	-	12,090	-	-	12,090
To record professional development invoice for expenses related to fiscal year 2022	-	10,425	-	-	10,425
Effect of Corrected Misstatements	<u>\$ (14,706)</u>	<u>\$ 75,196</u>	<u>\$ 8,996</u>	<u>\$ (54,706)</u>	<u>\$ 44,192</u>

BUFFALO CREEK ACADEMY CHARTER SCHOOL

BUFFALO, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND THE UNIFORM
GUIDANCE**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2022



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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

Board of Trustees
Buffalo Creek Academy Charter School

We have audited, 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, the consolidated financial statements of Buffalo Creek Academy Charter School, which comprise the consolidated statement of financial position as of June 30, 2022 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements and have issued our report thereon dated November 29, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Buffalo Creek Academy Charter School's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Buffalo Creek Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Buffalo Creek Academy Charter School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Buffalo Creek Academy Charter School's consolidated 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 consolidated financial statements. 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*.

We noted certain matters that we have reported to management of Buffalo Creek Academy Charter School in a separate letter dated November 29, 2022.

Buffalo Creek Academy Charter School's Response to Findings

Buffalo Creek Academy Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Buffalo Creek Academy Charter School's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
November 29, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Buffalo Creek Academy Charter School

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Buffalo Creek Academy Charter School's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Buffalo Creek Academy Charter School's major federal programs for the year ended June 30, 2022. Buffalo Creek Academy Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Buffalo Creek Academy Charter School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Buffalo Creek Academy Charter School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Buffalo Creek Academy Charter School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Buffalo Creek Academy Charter School's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Buffalo Creek Academy Charter School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Buffalo Creek Academy Charter School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Buffalo Creek Academy Charter School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Buffalo Creek Academy Charter School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Buffalo Creek Academy Charter School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Buffalo Creek Academy Charter School as of and for the year ended June 30, 2022, and have issued our report thereon dated November 29, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
November 29, 2022

BUFFALO CREEK ACADEMY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

	<u>Federal AL Number</u>	<u>Pass-through Grantor's Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education:			
<u>Passed through New York State Education Department:</u>			
Title I - Grants to Local Educational Agencies	84.010	0021	\$ 55,185
Title IIA - Supporting Effective Instruction State Grant	84.367	0147	7,478
Title IV - Student Support and Academic Enrichment Program	84.424	0204	10,000
Charter Schools Program - Planning and Implementation	84.282	0089	498,387
 <u>Education Stabilization Funds -</u>			
ESSER II - Elementary and Secondary School Emergency Relief Fund	84.425D	5891	183,133
ARP ESSER - American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	5880	<u>236,200</u>
<i>Total Education Stabilization Funds</i>			<u>419,333</u>
 TOTAL U.S. DEPARTMENT OF EDUCATION			 <u>990,383</u>
 TOTAL ALL PROGRAMS			 <u>\$ 990,383</u>

BUFFALO CREEK ACADEMY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Cont'd

YEAR ENDED JUNE 30, 2022

NOTE A: BASIS OF PRESENTATION

The above schedule of expenditures of federal awards includes the federal grant activity of Buffalo Creek Academy Charter School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Buffalo Creek Academy Charter School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

BUFFALO CREEK ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|---------------|---------------|
| • Material weakness (es) identified? | <u> x </u> | yes | <u> </u> | no |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u> </u> | yes | <u> x </u> | none reported |

Noncompliance material to financial statements noted?	<u> </u>	yes	<u> x </u>	no
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Federal Awards

Internal control over major programs:

- | | | | | |
|---|---------------|-----|--------------|---------------|
| • Material weakness (es) identified? | <u> </u> | yes | <u> x </u> | no |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u> </u> | yes | <u> x </u> | none reported |

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u>	yes	<u> x </u>	no
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Identification of major program:

AL Number:

84.425D & 84.425U

Name of Federal Program or Cluster:

ESSER II & ARP ESSER

Dollar threshold used to distinguish between type A and type B programs:

 \$750,000

Auditee qualified as low-risk auditee?	<u> </u>	yes	<u> x </u>	no
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BUFFALO CREEK ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2022

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2022-001

Statement of condition

During our audit, we noted there were several significant or material auditor adjustments required to be recorded affecting grants and other receivables, accounts payable and accrued expenses, accrued payroll and benefits, net assets, revenues and expenses. We consider this to be a material weakness in internal control over financial reporting.

Criteria and effect of conditions

There were two invoices relating to fiscal year 2022 that were not properly recorded as payables at June 30, 2022. We noted that no accrual was recorded for June 2022 payroll that was not paid out until July 2022. We noted an entry was required to adjust rent expense to actual. Two prior year entries had not been recorded and an entry was required to have net assets properly roll forward. An entry to adjust accrued payroll that was made in the prior year was not properly reversed in the current year resulting in an entry. The net impact of these adjustments were material to the consolidated financial statements.

Recommendation

In order to provide accurate accounting information, we recommend the Charter School establishes a more effective review and reconciliation process as a customary part of the accounting process. This would involve preparing monthly reconciliations of all significant accounts and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments. We also recommend management reviews the year-end closing entries to ensure all appropriate accruals and payables have been recorded. Finally, the Charter School should ensure their internal accounting records are in agreement with the audited financial statements.

Management response

Management agrees with the adjustments and will ensure all accounts are properly reconciled prior to closing the fiscal year.

BUFFALO CREEK ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2022

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

- NONE

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

- NONE