

BROOKHAVEN INNOVATION ACADEMY

ANNUAL FINANCIAL REPORT

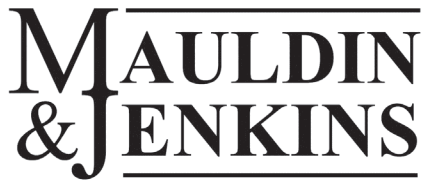
**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

BROOKHAVEN INNOVATION ACADEMY
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**To the Members of the Board
of Brookhaven Innovation Academy
Norcross, Georgia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of **Brookhaven Innovation Academy** (the "Academy") as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy'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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Brookhaven Innovation Academy, as of June 30, 2017, and the respective changes in financial position for the fiscal 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 General Fund Schedule of Revenues, Expenditures, and Change in Fund Balances – Budget and Actual (GAAP Basis) on page 22, and the Schedule of Contributions on page 23, 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2017 on our consideration of the Academy'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 solely 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 effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Atlanta, Georgia
September 15, 2017

BROOKHAVEN INNOVATION ACADEMY

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 11,517
Restricted cash	14,983
Due from other governments	87,514
Security deposit	40,000
Capital assets (depreciable, net of accumulated depreciation)	556,015
Total assets	710,029
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension plan contributions subsequent to the measurement date	195,002
Total deferred outflows of resources	195,002
<u>LIABILITIES</u>	
Accounts payable	72,597
Accrued expenses	127,382
Short term loan payable	41,662
Capital lease, due in one year	112,890
Capital lease, due in more than one year	154,543
Note payable, due in more than one year	345,804
Total liabilities	854,878
<u>NET POSITION</u>	
Net investment in capital assets	(17,222)
Restricted for classroom activities	14,983
Unrestricted	52,392
Total net position	\$ 50,153

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

BROOKHAVEN INNOVATION ACADEMY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 1,673,522	\$ -	\$ 1,018,468	\$ (655,054)
Support services:				
Improvement of instructional services	32,613	-	87,992	55,379
Educational media services	70,896	-	36,780	(34,116)
School administration	921,728	-	110,961	(810,767)
Maintenance and operation of plant	187,610	-	112,644	(74,966)
School nutrition services	33,557	-	-	(33,557)
After school program	19,680	61,448	-	41,768
Interest	59,860	-	-	(59,860)
Total governmental activities	<u>\$ 2,999,466</u>	<u>\$ 61,448</u>	<u>\$ 1,366,845</u>	<u>(1,571,173)</u>
General revenues:				
State supplement				1,555,185
Miscellaneous				<u>187,172</u>
Total general revenues				<u>1,742,357</u>
Change in net position				171,184
Net position - beginning of fiscal year				<u>(121,031)</u>
Net position - end of fiscal year				<u>\$ 50,153</u>

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

BROOKHAVEN INNOVATION ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 11,517
Restricted cash	14,983
Due from other governments	87,514
Security deposit	<u>40,000</u>
Total assets	<u><u>154,014</u></u>
<u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts payable	72,597
Accrued expenditures	122,271
Short term loan payable	<u>41,662</u>
Total liabilities	<u>236,530</u>
<u>FUND BALANCES</u>	
Nonspendable	40,000
Restricted for classroom activities	14,983
Unassigned	<u>(137,499)</u>
Total fund balance (deficit)	<u>(82,516)</u>
Total liabilities and fund balances	<u><u>\$ 154,014</u></u>

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

BROOKHAVEN INNOVATION ACADEMY

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

<hr/>			
Total fund balance - governmental fund		\$	(82,516)
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:			
Historical cost of capital assets	\$	679,450	
Less accumulated depreciation		<u>(123,435)</u>	
Total capital assets, net of accumulated depreciation			556,015
Contributions to the Teachers' Retirement System of Georgia which are made subsequent to the measurement date are reported as deferred outflows of resources to be recognized in future measurement periods.			
			195,002
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			
Long-term liabilities at year-end consist of:			
Note payable		(345,804)	
Capital lease payable		(267,433)	
Accrued interest payable		<u>(5,111)</u>	<u>(618,348)</u>
Net position of governmental activities		\$	<u><u>50,153</u></u>

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

BROOKHAVEN INNOVATION ACADEMY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>
<u>REVENUES</u>	
State funds	\$ 2,838,586
Local funds	248,620
Federal funds	83,444
Total revenues	<u>3,170,650</u>
<u>EXPENDITURES</u>	
Current:	
Instruction	1,699,511
Support services:	
Improvement of instructional services	32,613
Educational media services	77,506
School administration	960,696
Maintenance and operation of plant	187,610
School nutrition services	33,557
After school program	19,680
Capital outlays	373,646
Debt service:	
Principal	82,963
Interest	63,779
Total expenditures	<u>3,531,561</u>
Deficiency of revenues over expenditures	(360,911)
<u>OTHER FINANCING SOURCES</u>	
Capital leases	350,396
Total other financing sources	<u>350,396</u>
Net change in fund balance	(10,515)
Fund balance (deficit) - beginning of fiscal year	<u>(72,001)</u>
Fund balance (deficit) - end of fiscal year	<u>\$ (82,516)</u>

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

BROOKHAVEN INNOVATION ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Total net change in fund balance - governmental fund	\$	(10,515)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay		373,646
Depreciation expense		(123,435)

Contributions to the pension plan in the current fiscal year are deferred outflows and not a reduction of net position on the statement of activities.

195,002

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. These are the differences in the treatment of long-term debt and related items:

Capital lease		(350,396)
Principal payments		82,963

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest		3,919
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Change in net position of governmental activities	\$	<u>171,184</u>
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The accompanying notes are an integral part of these financial statements.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1: DESCRIPTION OF ACADEMY AND REPORTING ENTITY

REPORTING ENTITY

The Brookhaven Innovation Academy (the “Academy”) is a not-for-profit organization organized under the laws of the State of Georgia. The Academy is approved to provide educational services to students from kindergarten to sixth grade. The governing body of the Academy is comprised of a nine member Board of Directors. The Academy operates under a charter with the State Charter School Commission of Georgia (the “Commission”), which is effective until June 30, 2021.

The Academy is located in Norcross, Georgia providing education for over 390 students in grades kindergarten through sixth grade.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Academy does not consider any of its activities to be business-type activities.

Government-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall Academy. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Academy's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the Academy related to the administration and support of the Academy's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include: (a) charges paid by the recipients of goods or services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

In the Statement of Net Position, equity is reported as net position and consists of net investment in capital assets, amounts restricted by outside parties for specific purposes (if any), and unrestricted amounts. The net investment in capital assets is calculated by taking the capital assets, net of accumulated depreciation, less any related long-term financing arrangements, and adding back any unspent bond or contract proceeds.

Fund Financial Statements:

The fund financial statements provide information about the Academy's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Academy reports only one major governmental fund:

- The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The basis of accounting determines when transactions are reported on the financial statements. The government-wide governmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenues are recognized in the fiscal year in which they are earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Academy uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Academy considers all revenues reported in the governmental funds to be available if they are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recognized as expenditures to the extent they have matured, and other long-term obligations which are recognized when due and payable. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

The Academy funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the Academy's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

The State of Georgia reimburses the Academy for teachers' salaries and operating costs through the Quality Basic Education (QBE) Formula Earnings program. State of Georgia law defines the formula driven grant that determines the cost of an academic school year and the State of Georgia's share in this cost. Generally teachers are contracted for the school year (August 1 – May 31) and paid over a twelve month period; for the Academy, this period is August 1 through July 31. In accordance with the requirements of the enabling legislation of the QBE program, the State of Georgia reimburses the Academy over the same twelve month period in which teachers are paid, funding the academic school year expenditures. At June 30, the amount of teachers' salaries incurred but not paid until July of the subsequent year are accrued as the State of Georgia has only postponed the final payment of their share of the cost until the subsequent appropriations for cash management purposes. By June 30 of each year, the State of Georgia has a signed appropriation that includes this final amount, which represents the State of Georgia's intent to fund this final payment. Based on guidance in Government Accounting Standards Board (GASB) Statement No. 33, paragraph 74, the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, and the Academy recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

Grant revenues, state Quality Basic Education (QBE) revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period if availability criteria is met. All other revenue items are considered to be measurable and available only when cash is received by the government.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

RESTRICTED CASH

Amounts that have been donated to the Academy for which the external resource provider has placed stipulations on the use of the funds have been presented on the governmental fund balance sheet as well as the statement of net position as restricted cash.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECEIVABLES

Receivables, which include amounts due from other governments, consist of amounts due from the various entities disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the government-wide financial statements, all purchased capital assets are valued at cost. The Academy capitalizes assets in excess of \$1,000 with a useful life of greater than one year. Donated capital assets are recorded at estimated acquisition value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Furniture, fixtures and equipment	3 years
Leasehold improvements	5 years

LONG-TERM LIABILITIES

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the period in which they occur.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Governmental Activities report one type of deferred outflow of resources related to the Academy's participation in the Teachers' Retirement System of Georgia. The deferred outflow of resources being recognized is the Academy's actual contributions to the pension plan during the fiscal year ended June 30, 2017 which will be recognized in the next measurement period.

COMPENSATED ABSENCES

It is the Academy's policy to permit employees to earn paid time off benefits. The unused paid time off does not vest with the employees and therefore, no liability is reported associated with the unused paid time off.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Retirement System of Georgia (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FUND EQUITY

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - The Academy recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Academy and is fiscally advantageous for the Academy. The policy adopted establishes guidance concerning the desired level of fiscal year end fund balance to be maintained by the Academy and the management of fund balance levels and is applicable only to the General Fund of the Academy.

Fund balance is a measurement of available financial resources defined as the difference between total assets/deferred outflows and total liabilities/deferred inflows in each fund.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND EQUITY (Continued)

The Governmental Accounting Standards Board (GASB) Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

Non spendable – Fund balance reported as “non spendable” represents fund balance associated with inventory, prepaid items, long-term amounts of loans and notes receivable, property held for resale (however, if the use of the proceeds from the collection of receivables or sale of the property is restricted, committed, or assigned, then the receivables or property should be reported in those categories), and corpus of a permanent fund (legally/contractually required to be maintained).

Restricted – Fund balance reported as “restricted” represents amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources (such as bond resolutions and covenants and grant agreements).

Committed – Fund balance reported as “committed” includes amounts that can be used only for the specific purposes determined by a formal action of the Board. The Board as the highest level of decision making authority will have the sole authority to commit fund balance. Constraints can be removed or changed only by the Board through a formal resolution voted on by the Board. Actions to constrain resources should occur prior to the end of the Academy’s fiscal year, though the exact amount may be determined subsequently.

Assigned – Fund balance reported as “assigned” represents amounts intended to be used for specific purposes, but not meeting the criteria to be reported as committed or restricted fund balance. The intent is expressed by the Board. If these funds should have a deficit fund balance, those deficits are required to be reported as unassigned fund balance. The Board will have the authority under this policy to assign funds for a particular purpose.

Unassigned – Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose and results in a negative residual amount for that specific purpose, amounts assigned to other purposes in that governmental fund are reduced to eliminate the deficit.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND EQUITY (Continued)

The Academy applies restricted resources first when an expenditure/expense is incurred for purposes for which both restricted and unrestricted equity is available. If restricted resources are not available, the Academy's policy is to use committed first, then assigned funds, and lastly the unassigned.

USE OF ESTIMATES

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

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Academy annually adopts a budget for use of its allocated state and federal funds as outlined in the Georgia Department of Education defined allotment for the fiscal year. The budget will be prepared in accordance with provisions of the Quality Basic Education Act, OCGA Section 20-2-167. When the Academy tentatively adopts the budget, the budget will be advertised at least one time in a local newspaper of general circulation. At the next regular meeting of the Board of Directors, the budget will be revised as necessary and adopted as the upcoming (or current) fiscal year budget.

The following General Fund functions had excesses of actual expenditures over appropriations in the amount shown for the fiscal year ended June 30, 2017:

Instruction	\$ 54,852
Support services:	
Improvement of instructional services	866
School nutrition services	207
After school program	431
Capital outlays	373,646

These expenditures in excess of appropriations were funded by proceeds from a capital lease and greater than anticipated revenues, as applicable.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (OCGA 45-8-13.1), the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

Custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2017, the Academy's cash and cash equivalent accounts were insured or collateralized as required by state statutes.

Acceptable security for deposits consists of any one of or any combination of the following:

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the state of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the state of Georgia,
- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the state of Georgia,
- (5) Bonds of any public authority created by the laws of the state of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the state of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5: RECEIVABLES

Intergovernmental receivables consist of grant reimbursements due from federal, state or other grantors for expenditures made but not yet reimbursed. The Georgia Department of Education is the main government agency that grants are due from as of June 30, 2017.

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in the capital assets during the fiscal year:

	Balances		Balances	
	July 1, 2016	Increases	Decreases	June 30, 2017
Governmental Activities				
Capital assets, being depreciated:				
Furniture, fixtures and equipment	\$ -	\$ 373,646	\$ -	\$ 373,646
Leasehold improvements	305,804	-	-	305,804
Total	305,804	373,646	-	679,450
Less accumulated depreciation for:				
Furniture, fixture and equipment	-	62,274	-	62,274
Leasehold improvements	-	61,161	-	61,161
Total	-	123,435	-	123,435
Governmental activities capital assets, net	\$ 305,804	\$ 250,211	\$ -	\$ 556,015

Current fiscal year depreciation expense by function is as follows:

Instruction \$ 123,435

NOTE 7: RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; and acts of God.

The Academy has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, job related illness or injuries to employees and acts of God. The Academy has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the Academy's insurance coverage in the past fiscal year.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8: LONG-TERM DEBT

The changes in long-term debt during the fiscal year ended June 30, 2017, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due In More Than One Year</u>
Governmental activities:						
Capital leases	\$ -	\$ 350,396	\$ 82,963	\$ 267,433	\$ 112,890	\$ 154,543
Notes payable	345,804	-	-	345,804	-	345,804
Governmental activities Long-term liabilities	<u>\$ 345,804</u>	<u>\$ 350,396</u>	<u>\$ 82,963</u>	<u>\$ 613,237</u>	<u>\$ 112,890</u>	<u>\$ 500,347</u>

CAPITAL LEASE

During the fiscal year ended June 30, 2017, the Academy entered into a capital lease to finance the acquisition of furniture, fixtures and equipment. The lease is for a period of 3 years at an annual fixed interest rate of 10%. Based on the useful life of the equipment and the lease term, the lease qualifies as a capital lease. As of June 30, 2017, the Academy reported \$350,396 of capital assets under lease with accumulated depreciation of \$58,400. The annual amortization is reported as a component of depreciation expense. The lease matures on September 1, 2019. The future maturities are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 134,552
2019	134,552
2020	<u>30,303</u>
Total payments	<u>299,407</u>
Less interest	<u>(31,974)</u>
Principal outstanding	<u>\$ 267,433</u>

NOTE PAYABLE

In April 2016, the Academy executed a promissory note in the principal amount of \$345,804 to finance the costs of a security deposit and leasehold improvements at its school building. Interest only payments commenced on October 1, 2016 and are due on the first of each month until the note matures and the full principal amount is due on April 1, 2019. The note bears interest at 10%. Future debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 34,584	\$ 34,584
2019	<u>345,804</u>	<u>28,820</u>	<u>374,624</u>
	<u>\$ 345,804</u>	<u>\$ 63,404</u>	<u>\$ 409,208</u>

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9: SHORT-TERM BORROWINGS

On July 12, 2016, the Academy executed a commercial line of credit agreement and note with a local financial institution. Under the agreement, the Academy can borrow up to \$250,000 at an interest rate equal to the Wall Street Journal Prime Rate plus 1.00%. Monthly payments of interest are due on the twelfth of each month and the entire unpaid principal balance is due when the note matures on July 12, 2017.

Throughout the fiscal year, the Academy drew \$1,545,400 during the year and repaid \$1,503,738 leaving an unpaid principal balance outstanding of \$41,662 as of June 30, 2017. The Academy paid \$10,379 of interest related to this line of credit agreement.

NOTE 10: COMMITMENTS AND CONTINGENCIES

GRANT CONTINGENCIES

Amounts received or receivable principally from the federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The Academy believes that such disallowances, if any, will be immaterial to its overall financial position.

CONTRACTUAL COMMITMENTS – OPERATING LEASE

The Academy has executed a lease agreement as lessee for its school building facility. The lease agreement runs from July 1 through June 30 of each year with the base rent increasing 3% each year that the Academy agrees to continue occupying the space. For the current year, the Academy made \$348,000 in lease payments under the agreement. The Academy's future commitments related to this operating lease are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 358,440
2019	369,193
2020	380,269
2021	<u>391,677</u>
	<u>\$ 1,499,579</u>

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11: RETIREMENT PLANS

GENERAL INFORMATION ABOUT THE TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan description: All teachers of the Academy as defined in §47-3-60 of the *Official Code of Georgia Annotated* (O.C.G.A.) are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. TRS issues a publicly available financial report that can be obtained at www.trsga.com/publications.

Benefits provided: TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions: Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6.00% of their annual pay during fiscal year 2017. The Academy's contractually required contribution rate for the year ended June 30, 2017 was 14.27% of annual Academy payroll. Academy contributions to TRS were \$195,002 for the year ended June 30, 2017.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

Effective July 1, 2016, the Academy implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. However, at June 30, 2017 the Academy does not report a proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 at which time the Academy did not participate in the TRS Plan and, therefore, had no share of the net pension liability nor any contributions to the Plan.

Academy contributions subsequent to the measurement date of \$195,002 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability, which will be established, in the year ended June 30, 2018.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12. SUBSEQUENT EVENT

On July 12, 2017, the Academy renewed its line of credit with a limit of \$250,000 with a local financial institution. Outstanding draws on the line of credit bear interest at a variable rate, calculated as the Wall Street Journal U.S. Prime Rate plus 1.00%. Interest payments are due monthly. The line of credit matures on September 12, 2017, at which time the outstanding principal balance and any unpaid interest is due.

REQUIRED SUPPLEMENTARY INFORMATION

BROOKHAVEN INNOVATION ACADEMY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>BUDGETED</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>REVENUES</u>				
State funds	\$ 2,751,750	\$ 2,751,859	\$ 2,838,586	\$ 86,727
Local funds	237,000	226,774	248,620	21,846
Federal funds	-	91,653	83,444	(8,209)
Total revenues	<u>2,988,750</u>	<u>3,070,286</u>	<u>3,170,650</u>	<u>100,364</u>
<u>EXPENDITURES</u>				
Current				
Instruction	1,686,308	1,644,659	1,699,511	(54,852)
Support services:				
Improvement of instructional services	19,562	31,747	32,613	(866)
Educational media services	53,065	78,766	77,506	1,260
School administration	922,512	976,489	960,696	15,793
Maintenance and operation of plant	148,268	191,424	187,610	3,814
School nutrition services	33,000	33,350	33,557	(207)
After school program	21,867	19,249	19,680	(431)
Capital outlays	-	-	373,646	(373,646)
Debt service:				
Principal	82,963	82,963	82,963	-
Interest	49,315	76,361	63,779	12,582
Total expenditures	<u>3,016,860</u>	<u>3,135,008</u>	<u>3,531,561</u>	<u>(396,553)</u>
Deficiency of revenues over expenditures	(28,110)	(64,722)	(360,911)	(296,189)
<u>OTHER FINANCING SOURCES</u>				
Capital lease	-	-	350,396	350,396
Total other financing sources	<u>-</u>	<u>-</u>	<u>350,396</u>	<u>350,396</u>
Net change in fund balances	(28,110)	(64,722)	(10,515)	54,207
Fund balances (deficit) - beginning	<u>(72,001)</u>	<u>(72,001)</u>	<u>(72,001)</u>	<u>-</u>
Fund balance (deficit) - ending	<u>\$ (100,111)</u>	<u>\$ (136,723)</u>	<u>\$ (82,516)</u>	<u>\$ 54,207</u>

**BROOKHAVEN INNOVATION ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	2017
Contractually required contributions	\$ 195,002
Contributions in relation to the contractually required contributions	195,002
Contribution deficiency (excess)	\$ -
Academy's covered-employee payroll	1,366,517
Contributions as a percentage of covered-employee payroll	14.27%

Note: The Academy's first year of operations was the fiscal year ended June 30, 2017.

**BROOKHAVEN INNOVATION ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2017 reported in that schedule:

Valuation date	June 30, 2014
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	Seven-year smoothed market
Inflation rate	3.00%
Salary increases	3.75 – 7.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

COMPLIANCE SECTION



**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***

**To the Members of the Board
of Brookhaven Innovation Academy
Norcross, Georgia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Brookhaven Innovation Academy (the "Academy") as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 Academy's internal control. Accordingly, we do not express an opinion of the effectiveness of the Academy's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 15, 2017