

**ACADEMY OF THE CITY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2016 AND 2015

ACADEMY OF THE CITY CHARTER SCHOOL

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ACADEMY OF THE CITY CHARTER SCHOOL

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**Independent Auditor's Report on Financial Statements
and Supplementary Information**

**Board of Trustees
Academy of the City Charter School**

Report on the Financial Statements

We have audited the accompanying financial statements of Academy of the City Charter School, which comprise the balance sheet as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

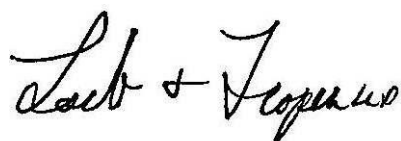
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Academy of the City Charter School as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016 on our consideration of Academy of the City Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Academy of the City Charter School's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Loeb & Troper".

October 18, 2016

ACADEMY OF THE CITY CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash	\$ 1,137,151	\$ 1,093,331
Grants and contracts receivable	8,726	8,660
Accounts receivable - net (Note 3)	15,274	9,693
Security deposits	156,000	86,000
Prepaid expenses and other receivables	<u>82,902</u>	<u>54,565</u>
Total current assets	1,400,053	1,252,249
Cash - reserve (Note 2)	75,553	75,400
Fixed assets - net (Note 4)	<u>1,130,877</u>	<u>663,805</u>
Total assets	<u>\$ 2,606,483</u>	<u>\$ 1,991,454</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 86,198	\$ 125,803
Accrued salaries and related liabilities	419,764	353,114
Refundable advances	<u>6,245</u>	<u></u>
Total current liabilities	512,207	478,917
Deferred rent	<u>722,343</u>	<u>588,854</u>
Total liabilities	1,234,550	1,067,771
Net assets (Exhibit B)		
Unrestricted	<u>1,371,933</u>	<u>923,683</u>
Total liabilities and net assets	<u>\$ 2,606,483</u>	<u>\$ 1,991,454</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues and other support		
State and local per-pupil operating revenues	\$ 5,939,200	\$ 5,171,188
Government grants and contracts	418,638	269,726
Auxiliary program revenues	76,748	85,441
Contributions	59,243	58,248
Miscellaneous income	4,168	23,742
	<u>6,497,997</u>	<u>5,608,345</u>
Total operating revenues and other support		
Expenses (Schedule 1)		
Program services		
Education	4,392,255	3,463,594
Special education	472,847	497,602
	<u>4,865,102</u>	<u>3,961,196</u>
Total program services		
Supporting services		
Management and general	1,166,598	1,057,454
Fund raising	18,047	20,685
	<u>1,184,645</u>	<u>1,078,139</u>
Total supporting services		
Total expenses	<u>6,049,747</u>	<u>5,039,335</u>
Change in unrestricted net assets (Exhibit C)	448,250	569,010
Net assets, unrestricted - beginning of year	<u>923,683</u>	<u>354,673</u>
Net assets, unrestricted - end of year (Exhibit A)	<u>\$ 1,371,933</u>	<u>\$ 923,683</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 448,250	\$ 569,010
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	112,102	73,825
Decrease (increase) in assets		
Grants and contracts receivable	(66)	(4,471)
Accounts receivable	(5,581)	(4,834)
Security deposits	(70,000)	
Prepaid expenses and other receivables	(28,337)	51,688
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(39,605)	45,427
Accrued salaries and related liabilities	66,650	14,747
Refundable advances	6,245	
Deferred rent	133,489	239,627
Net cash provided by operating activities	<u>623,147</u>	<u>985,019</u>
Cash flows from investing activities		
Fixed asset acquisitions	(579,174)	(258,663)
Cash - deposits in escrow	(153)	(153)
Net cash used by investing activities	<u>(579,327)</u>	<u>(258,816)</u>
Net change in cash	43,820	726,203
Cash - beginning of year	<u>1,093,331</u>	<u>367,128</u>
Cash - end of year	<u>\$ 1,137,151</u>	<u>\$ 1,093,331</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1 - NATURE OF ORGANIZATION

Academy of the City Charter School (AoC) is an educational corporation that operates as a charter school in the borough of Queens, New York City. On December 14, 2010, the Board of Regents and the Board of Trustees of the University of the State of New York, for and on behalf of the State Education Department, granted AoC a charter valid for a term of 5 years and renewable upon expiration. The school was granted a charter from K-5. On January 26, 2016 the school's charter renewal was approved for an additional three years. AoC was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. During fiscal year 2016, AoC operated classes for 410 students in grades K-5. In 2015, AoC operated classes for 358 students in grades K-4.

Academy of the City Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. AoC is supported primarily by state and local per-pupil operating revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash - reserve - As part of AoC's charter agreement, AoC agreed to establish a long-term reserve account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Accounts receivable - Accounts receivable consist of unpaid afterschool program balances and other charges earned but not yet received. Receivables are presented net of allowances for doubtful accounts. Interest is not accrued or recorded on outstanding receivables.

Allowance for doubtful accounts - Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management deemed no allowance needed for the years ended June 30, 2016 and 2015.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$1,000 and an estimated useful life of more than one year are capitalized. Depreciation is provided on the straight-line basis over the estimated useful lives of assets. Leasehold improvements are amortized over the term of the lease.

Refundable advances - Refundable advances are monies owed to New York City Department of Education when payments received exceed the per-pupil revenue.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

State and local per-pupil revenues - Revenues from the state and local governments resulting from AoC's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by AoC when services are rendered.

Grants and contracts revenue and receivables - Revenues from government grants and contracts to which AoC is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by AoC. Receivables are recorded when the revenue is earned.

Auxiliary program revenue - Auxiliary program revenues are revenues from afterschool program and food services, which are recognized on the accrual basis. Students are billed in advance of services rendered, and revenues are recognized as earned.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors.

Deferred rent - Operating leases are straight-lined over the term of the lease. Deferred rent has been recorded for the difference between the fixed payment and the rent expense.

Functional allocation of expenses - The costs of providing AoC's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - AoC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2013 and subsequent remain subject to examination by applicable taxing authorities.

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events - Subsequent events have been evaluated through October 18, 2016, which is the date the financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable for the year ended June 30, 2016 was as follows:

Accounts receivable - current	\$ 7,274
Allowance for doubtful accounts	<u>-</u>
Accounts receivable - net	\$ <u><u>7,274</u></u>

Accounts receivable for the year ended June 30, 2015 was as follows:

Accounts receivable - current	\$ 9,693
Allowance for doubtful accounts	<u>-</u>
Accounts receivable - net	\$ <u><u>9,693</u></u>

NOTE 4 - FIXED ASSETS

	<u>2016</u>	<u>2015</u>	<u>Useful Lives</u>
Furniture and fixtures	\$ 183,689	\$ 137,731	3-5 years
Equipment	283,128	206,871	3-5 years
Leasehold improvements	969,197	503,695	22 years
Construction in progress	<u> </u>	<u>8,543</u>	
	1,436,014	856,840	
Accumulated depreciation and amortization	<u>(305,137)</u>	<u>(193,035)</u>	
	\$ <u><u>1,130,877</u></u>	\$ <u><u>663,805</u></u>	

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 5 - LOAN PAYABLE

In February 2014, AoC entered into a revolving line of credit agreement with Raza Development Fund, Inc. authorizing AoC to access a maximum of \$150,000 for which the proceeds would be used to provide short-term working capital. The effective interest rate is 7%. The loan is secured by eligible accounts receivable. As of June 30, 2016 and 2015, there were no outstanding balances. The line of credit expires annually with an option to renew.

NOTE 6 - LEASE COMMITMENT

On May 20, 2013, AoC entered into a new lease with the Roman Catholic Church of Corpus Christi for a new location located in Woodside, NY. The lease commenced on July 1, 2013 and will expire on June 30, 2035. On August 1, 2015 AoC entered into a new lease with the Roman Catholic Church of Corpus Christi for a new location located at Woodside, NY which is the parking lot. The lease commenced on August 1, 2015 and will expire on July 31, 2020.

The future minimum lease payments as of June 30, 2016 are:

2017	\$ 884,746
2018	888,622
2019	967,556
2020	972,174
2021	828,117
Thereafter	<u>13,251,992</u>
	<u>\$ 17,793,207</u>

Rent expense for the years ended June 30, 2016 and 2015 was \$1,006,569 and \$869,649, respectively.

NOTE 7 - CONTINGENCIES AND CONCENTRATIONS

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost 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.

A significant portion of AoC's operating revenue is paid by New York City Department of Education.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 8 - RELATED-PARTY TRANSACTION**

AoC entered into an agreement with a not-for-profit organization (Open School Project which subsequently changed their name to NYC Coalition of Community Charter Schools) employing a member of the board of AoC. Open School Project's Board of Directors consists of seven members, two of which are employees of Open School Project. The agreement is for supporting services including marketing, facility relocation search and advocacy. AoC paid Open School Project \$169,998 in 2016 and \$206,848 in 2015.

NOTE 9 - PENSIONS

ACCS has a defined contribution retirement plan with Principal Financial which covers substantially all full-time employees. ACCS contributes an amount equal to 3% in 2016 and 2015 of the employee's contribution to the plan up to the maximum amount allowed. Pension expense under this plan for the years ended June 30, 2016 and 2015 was \$62,823 and \$43,511, respectively.

ACADEMY OF THE CITY CHARTER SCHOOL

SCHEDULE 1

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	No. of Positions	Program Services			Supporting Services			Total
		Education	Special Education	Total	Management and General	Fund Raising	Total	
Personnel service costs								
Administrative staff personnel	8	\$ 159,756	\$ 13,892	\$ 173,648	\$ 418,219		\$ 418,219	\$ 591,867
Instructional personnel	44	1,965,570	218,397	2,183,967				2,183,967
Noninstructional personnel	4	149,277	15,254	164,531	59,934		59,934	224,465
		<u>2,274,603</u>	<u>247,543</u>	<u>2,522,146</u>	<u>478,153</u>		<u>478,153</u>	<u>3,000,299</u>
Salaries								
Payroll taxes and employee benefits		501,916	52,833	554,749	105,667		105,667	660,416
Occupancy		816,403	85,937	902,340	171,875		171,875	1,074,215
Contracted services		105,818	11,758	117,576	174,827	\$ 17,000	191,827	309,403
Supplies and equipment		59,364	6,249	65,613	12,498		12,498	78,111
Repairs and maintenance		125,975	13,260	139,235	26,521		26,521	165,756
Professional fees					135,983		135,983	135,983
Classroom supplies and textbooks		238,813	26,535	265,348				265,348
Insurance		44,891	4,725	49,616	9,451		9,451	59,067
Student and staff recruitment		46,919	5,213	52,132				52,132
Telephone		33,099	3,484	36,583	6,968		6,968	43,551
Staff travel					9,392	1,047	10,439	10,439
Student field trips		9,854	1,095	10,949				10,949
Food services		14,242	1,499	15,741	2,999		2,999	18,740
Board and staff development		27,222	2,866	30,088	7,090		7,090	37,178
Depreciation		85,198	8,968	94,166	17,936		17,936	112,102
Bad debt					7,238		7,238	7,238
Miscellaneous expenses		7,938	882	8,820				8,820
		<u>4,392,255</u>	<u>472,847</u>	<u>4,865,102</u>	<u>1,166,598</u>	<u>18,047</u>	<u>1,184,645</u>	<u>6,049,747</u>
Total expenses (Exhibit B)		\$	\$	\$	\$	\$	\$	\$

See independent auditor's report.



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

Independent Auditor's Report

**Board of Trustees
Academy of the City Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Academy of the City Charter School, which comprise the balance sheet as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2016.

Internal Control Over Financial Reporting

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

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

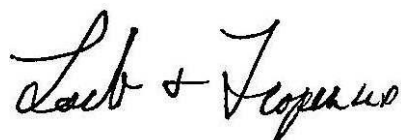
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Academy of the City Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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



October 18, 2016

ACADEMY OF THE CITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

None Noted

ACADEMY OF THE CITY CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2016



**Board of Trustees
Academy of the City Charter School**

In planning and performing our audit of the financial statements of Academy of the City Charter School (AoC) as of and for the year ended June 30, 2016 in accordance with auditing standards generally accepted in the United States of America, we considered AoC'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 AoC's internal control. Accordingly, we do not express an opinion on the effectiveness of AoC'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

We wish to make the following observations and recommendations for consideration by management:

Purchase Orders

We noted during our audit that there is a purchase order form; however, it is being filled out after the purchases are being made. We recommend that formal policies relating to purchasing and receiving are followed correctly.

Executive Reimbursements

We noted during our audit that Richard Lee's expense reimbursements are being reviewed by Adam Hunt. We recommend that these expenses are reviewed by the Treasurer of the Board and the approval is documented.

This communication is intended solely for the information and use of management, the Board of Trustees and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.



October 18, 2016