

**ACADEMY OF THE CITY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

**FROM DECEMBER 14, 2010 (INCEPTION)
THROUGH JUNE 30, 2012**

ACADEMY OF THE CITY CHARTER SCHOOL

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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**



LOEB & TROPER LLP

Independent Auditor's Report on Financial Statements

Board of Trustees Academy of the City Charter School

We have audited the accompanying balance sheet of Academy of the City Charter School as of June 30, 2012, and the related statements of activities, functional expenses and cash flows from December 14, 2010 (inception) through June 30, 2012. These financial statements are the responsibility of Academy of the City Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit 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 Academy of the City Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of Academy of the City Charter School as of June 30, 2012, and the changes in its net assets and its cash flows from December 14, 2010 (inception) through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Academy of the City Charter School as a whole. The information in Schedule 1, Schedule of Revenues and 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.

Loeb + Troper LLP

October 17, 2012

ACADEMY OF THE CITY CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2012

ASSETS

Current assets	
Cash	\$ 55,514
Grants and contracts receivable	112,714
Security deposits	<u>10,000</u>
Total current assets	178,228
Fixed assets - net (Note 3)	<u>77,938</u>
Total assets	\$ <u><u>256,166</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	\$ 38,895
Accrued salaries, vacations and related liabilities	126,743
Loan payable (Note 5)	7,335
Refundable advances	<u>18,328</u>
Total current liabilities	191,301
Loan payable (Note 5)	<u>3,290</u>
Total liabilities	194,591
Net assets (Exhibit B)	
Unrestricted	<u>61,575</u>
Total liabilities and net assets	\$ <u><u>256,166</u></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

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

Operating revenues and other support	
State and local per-pupil operating revenues	\$ 1,381,752
Government grants and contracts	343,141
Contributions	115,326
In-kind contribution (Note 7)	<u>397,614</u>
Total operating revenues	<u>2,237,833</u>
Expenses (Exhibit C)	
Program services	
Education	1,345,334
Special education	<u>142,959</u>
Total program services	<u>1,488,293</u>
Supporting services	
Management and general	677,315
Fund raising	<u>10,650</u>
Total supporting services	<u>687,965</u>
Total expenses	<u>2,176,258</u>
Change in unrestricted net assets (Exhibit D)	61,575
Net assets - beginning of period	<u>-</u>
Net assets - end of period (Exhibit A)	<u>\$ 61,575</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

	Program Services		Supporting Services		Total
	Education	Special Education	Management and General	Fund Raising	
Salaries	\$ 746,401	\$ 84,290	\$ 194,186	\$	\$ 1,024,877
Payroll taxes and employee benefits	160,906	18,171	41,862		220,939
Occupancy (Note 7)	193,971	21,905	50,464		266,340
Contracted services	54,028	4,698	107,675	10,650	177,051
Supplies and equipment	31,119	3,514	8,096		42,729
Repairs and maintenance	42,002	4,743	10,927		57,672
Professional fees (Note 7)			237,214		237,214
Classroom supplies and textbooks	58,821	79			58,900
Insurance	15,120	1,680	4,201		21,001
Student and staff recruitment			13,118		13,118
Telephone	7,834	868	2,000		10,702
Staff travel	3,215	363	837		4,415
Student field trips	2,458				2,458
Food services	5,575				5,575
Board and staff development	5,040	569	1,657		7,266
Depreciation	13,195	1,466	3,666		18,327
Miscellaneous expenses	5,649	613	1,412		7,674
Total expenses (Exhibit B)	\$ 1,345,334	\$ 142,959	\$ 677,315	\$ 10,650	\$ 2,176,258

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

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 61,575
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	18,327
Increase in assets	
Grants and contracts receivable	(112,714)
Security deposits	(10,000)
Increase in liabilities	
Accounts payable and accrued expenses	38,895
Accrued salaries, vacations and related liabilities	126,743
Refundable advances	18,328
	<u>141,154</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Fixed asset acquisitions net of disposals	<u>(96,265)</u>
Cash flows from financing activities	
Proceeds from loans	15,000
Principal payments on loans	<u>(4,375)</u>
Net cash provided by financing activities	<u>10,625</u>
Net change in cash	55,514
Cash - beginning of period	<u>-</u>
Cash - end of period	<u><u>\$ 55,514</u></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

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

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. 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. In fiscal year 2012, AoC operated classes for 104 students in grades K-1.

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.

The school was originally incorporated as Our World Neighborhood Charter School II. On November 29, 2011 the school's name was legally changed to Academy of the City Charter School.

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.

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 following useful lives of assets:

Furniture, fixtures and equipment	3 - 5 years
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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.

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Federal and state funds are recorded by AoC when expenditures are incurred and billed.

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 incurred.

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.

Functional allocation of expenses - The costs of providing the School'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, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 17, 2012, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

Furniture and fixtures	\$ 68,118
Equipment	<u>28,147</u>
	96,265
Accumulated depreciation	<u>(18,327)</u>
	<u>\$ 77,938</u>

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

NOTE 4 - LEASE COMMITMENT

AoC has a sublease agreement with The Voice Charter School of New York. The term of the sublease shall expire on June 30, 2013. AoC has the option to extend the lease through June 30, 2014. During the initial term, AoC is not required to make any payments. As of June 30, 2012, there is an in-kind contribution of \$220,000, the fair market value of the annual rent.

NOTE 5 - LOAN PAYABLE

On March 7, 2011, AoC entered into an unsecured loan for \$15,000, which consists of a nominal annual rate note payable to the lender (NYC Charter School Center). The interest rate is 2%. The loan will mature on January 1, 2014.

Principal payments over the next two years are as follows:

2013	\$	7,335
2014		<u>3,290</u>
	\$	<u>10,625</u>

NOTE 6 - 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.

NOTE 7 - IN-KIND CONTRIBUTIONS

AoC received in-kind contributions as follows:

Rent	\$	220,000
Legal fees		<u>177,614</u>
	\$	<u>397,614</u>

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

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

We have audited the financial statements of Academy of the City Charter School as of June 30, 2012 and for the period from December 14, 2010 (inception) through June 30, 2012, and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Academy of the City Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Academy of the City Charter School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Academy of the City Charter School's internal control over financial reporting.

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 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.

SCHEDULE 1

ACADEMY OF THE CITY CHARTER SCHOOL

SCHEDULE OF REVENUES AND EXPENSES

FROM DECEMBER 14, 2010 (INCEPTION) THROUGH JUNE 30, 2012

	<u>December 14, 2010 through June 30, 2012</u>	<u>Year Ended June 30, 2011</u>	<u>Total</u>
Operating revenues and other support			
State and local per-pupil operating revenues	\$ 1,381,752		\$ 1,381,752
Government grants and contracts	343,141		343,141
Contributions	10,142	\$ 105,184	115,326
In-kind contribution - rent	<u>397,614</u>		<u>397,614</u>
Total operating revenues	<u>2,132,649</u>	<u>105,184</u>	<u>2,237,833</u>
Expenses (Exhibit C)			
Program services			
Education	1,345,334		1,345,334
Special education	<u>142,959</u>		<u>142,959</u>
Total program services	<u>1,488,293</u>		<u>1,488,293</u>
Supporting services			
Management and general	580,092	97,223	677,315
Fund raising	<u>10,650</u>		<u>10,650</u>
Total supporting services	<u>590,742</u>	<u>97,223</u>	<u>687,965</u>
Total expenses	<u>2,079,035</u>	<u>97,223</u>	<u>2,176,258</u>
Change in unrestricted net assets	<u>\$ 53,614</u>	<u>\$ 7,961</u>	<u>\$ 61,575</u>

See independent auditor's report.