

**ACADEMY OF THE CITY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 October 17, 2017 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 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 Academy of the City Charter School'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 Academy of the City Charter School's internal control over financial reporting and compliance.

Loeb & Troper LLP

October 17, 2017

ACADEMY OF THE CITY CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash	\$ 1,476,684	\$ 1,137,151
Grants and contracts receivable	227,135	8,726
Accounts receivable	1,517	15,274
Security deposits	226,000	156,000
Prepaid expenses	112,014	82,902
	<u>2,043,350</u>	<u>1,400,053</u>
Total current assets		
Cash - reserve (Note 2)	75,671	75,553
Fixed assets - net (Note 3)	1,242,407	1,130,877
	<u>1,242,407</u>	<u>1,130,877</u>
Total assets	<u>\$ 3,361,428</u>	<u>\$ 2,606,483</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 197,232	\$ 86,198
Accrued salaries and related liabilities	432,843	419,764
Refundable advances		6,245
	<u>630,075</u>	<u>512,207</u>
Total current liabilities		
Deferred rent (Note 4)	852,697	722,343
	<u>852,697</u>	<u>722,343</u>
Total liabilities	1,482,772	1,234,550
Net assets (Exhibit B)		
Unrestricted	1,878,656	1,371,933
	<u>1,878,656</u>	<u>1,371,933</u>
Total liabilities and net assets	<u>\$ 3,361,428</u>	<u>\$ 2,606,483</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenues and other support		
Resident student enrollment	\$ 5,790,752	\$ 5,685,424
Students with disabilities	294,214	253,776
NYCDOE rental assistance revenue	<u>309,413</u>	<u>288,838</u>
Total state and local per-pupil operating revenues	6,394,379	6,228,038
Government grants and contracts	429,679	129,800
Auxiliary program revenues	371	76,748
Contributions	91,522	59,243
Miscellaneous income	<u>5,188</u>	<u>4,168</u>
Total operating revenues and other support	<u>6,921,139</u>	<u>6,497,997</u>
Expenses (Schedule 1)		
Program services		
Education	4,536,390	4,392,255
Special education	<u>612,116</u>	<u>472,847</u>
Total program services	<u>5,148,506</u>	<u>4,865,102</u>
Supporting services		
Management and general	1,256,271	1,166,598
Fund raising	<u>9,639</u>	<u>18,047</u>
Total supporting services	<u>1,265,910</u>	<u>1,184,645</u>
Total expenses	<u>6,414,416</u>	<u>6,049,747</u>
Change in unrestricted net assets (Exhibit C)	506,723	448,250
Net assets, unrestricted - beginning of year	<u>1,371,933</u>	<u>923,683</u>
Net assets, unrestricted - end of year (Exhibit A)	<u>\$ 1,878,656</u>	<u>\$ 1,371,933</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 506,723	\$ 448,250
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	123,782	112,102
Decrease (increase) in assets		
Grants and contracts receivable	(218,409)	(66)
Accounts receivable	13,757	(5,581)
Security deposits	(70,000)	(70,000)
Prepaid expenses	(29,112)	(28,337)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	111,034	(39,605)
Accrued salaries and related liabilities	13,079	66,650
Refundable advances	(6,245)	6,245
Deferred rent	130,354	133,489
Net cash provided by operating activities	<u>574,963</u>	<u>623,147</u>
Cash flows from investing activities		
Fixed asset acquisitions	(235,312)	(579,174)
Cash - deposits in escrow	(118)	(153)
Net cash used by investing activities	<u>(235,430)</u>	<u>(579,327)</u>
Net change in cash	339,533	43,820
Cash - beginning of year	<u>1,137,151</u>	<u>1,093,331</u>
Cash - end of year	<u>\$ 1,476,684</u>	<u>\$ 1,137,151</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, 2017 AND 2016

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 grades K-5. On July 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 2017 and 2016, AoC operated classes for approximately 410 students in grades K-5.

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, 2017 and 2016.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****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.

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 17, 2017, which is the date the financial statements were available to be issued.

Reclassification - State and local per pupil operating revenues for 2016 have been reclassified to conform to current presentation.

NOTE 3 - FIXED ASSETS

	<u>2017</u>	<u>2016</u>	<u>Useful Lives</u>
Furniture and fixtures	\$ 217,647	\$ 183,689	3-5 years
Equipment	332,215	283,128	3-5 years
Leasehold improvements	1,100,498	969,197	22 years
Construction in progress	<u>20,966</u>	<u> </u>	
	1,671,326	1,436,014	
Accumulated depreciation and amortization	<u>(428,919)</u>	<u>(305,137)</u>	
	<u>\$ 1,242,407</u>	<u>\$ 1,130,877</u>	

NOTE 4 - 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.

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 4 - LEASE COMMITMENT (continued)

The future minimum lease payments as of June 30, 2017 are:

<u>Year Ending June 30</u>	
2018	\$ 888,622
2019	967,556
2020	972,174
2021	828,117
2022	814,986
Thereafter	<u>12,437,006</u>
	<u>\$ 16,908,461</u>

The leases for the building and parking lot are being straight-lined over the life of the lease. The deferred rent liability as of June 30, 2017 and 2016 was \$852,697 and \$722,343, respectively.

Rent expense for the years ended June 30, 2017 and 2016 was \$1,019,689 and \$1,006,569, respectively.

NOTE 5 - 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 State Department of Education.

In addition, all grants and contracts receivable due at year end were all due from the New York State Department of Education.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 6 - RELATED-PARTY TRANSACTION**

AoC entered into an agreement with a not-for-profit organization named NYC Coalition of Community Charter Schools (DBA The Open School Project, Inc.) that employs two members of the board of AoC. The agreement is for supporting services including marketing, facility relocation search and advocacy. AoC paid NYC Coalition of Community Charter Schools \$96,390 in 2017 and \$169,998 in 2016.

NOTE 7 - PENSIONS

AoC has a defined contribution retirement plan with Principal Financial which covers substantially all full-time employees. AoC contributes an amount equal to 4% in 2017 and 2016 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, 2017 and 2016 was \$87,437 and \$62,823, respectively.

ACADEMY OF THE CITY CHARTER SCHOOL

SCHEDULE 1

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	No. of Positions	Program Services			Supporting Services			Total
		Education	Special Education	Total	Management and General	Fund Raising	Total	
Personnel service costs								
Administrative staff personnel	9	\$ 215,323	\$ 18,724	\$ 234,047	\$ 516,993		\$ 516,993	\$ 751,040
Instructional personnel	39	1,985,305	270,723	2,256,028				2,256,028
Noninstructional personnel	5	177,076	21,234	198,310	64,075		64,075	262,385
Salaries		2,377,704	310,681	2,688,385	581,068		581,068	3,269,453
Payroll taxes and employee benefits		649,839	89,019	738,858	151,332		151,332	890,190
Occupancy		808,222	110,715	918,937	188,216		188,216	1,107,153
Contracted services		83,759	17,835	101,594	94,673	\$ 9,639	104,312	205,906
Supplies and equipment		29,831	4,086	33,917	6,947		6,947	40,864
Repairs and maintenance		114,042	15,622	129,664	26,558		26,558	156,222
Professional fees					140,895		140,895	140,895
Classroom supplies and textbooks		119,062	16,236	135,298				135,298
Insurance		30,851	4,226	35,077	7,184		7,184	42,261
Student and staff recruitment		46,668	6,364	53,032				53,032
Telephone		46,144	6,321	52,465	10,746		10,746	63,211
Staff travel					6,954		6,954	6,954
Student field trips		11,356	1,548	12,904				12,904
Food services		32,615	4,468	37,083	7,595		7,595	44,678
Board and staff development		94,568	12,430	106,998	6,701		6,701	113,699
Depreciation		90,361	12,378	102,739	21,043		21,043	123,782
Bad debt					6,359		6,359	6,359
Miscellaneous expenses		1,368	187	1,555				1,555
Total expenses (Exhibit B)		\$ 4,536,390	\$ 612,116	\$ 5,148,506	\$ 1,256,271	\$ 9,639	\$ 1,265,910	\$ 6,414,416

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, 2017 and 2016, 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 17, 2017.

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.

Loeb & Troper LLP

October 17, 2017

ACADEMY OF THE CITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

None noted.

ACADEMY OF THE CITY CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2017



**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, 2017 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.

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.

A handwritten signature in cursive script, appearing to read "Loeb & Troper LLP".

October 17, 2017