

ACADEMY OF THE CITY CHARTER SCHOOL

QUEENS, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2020

(With Comparative Totals For 2019)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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 statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 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 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, 2020, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Academy of the City Charter School for the year ended June 30, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on October 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020 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, 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.

Emphasis of Matters

As discussed in Note A to the financial statements, in 2020, Academy of the City Charter School adopted new accounting guidance for recognition of revenue, contributions received, and statement of cash flows presentation. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 27, 2020

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals For 2019)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 2,851,845	\$ 1,971,907
Certificates of deposit	862,955	607,260
Grants and other receivables	142,824	79,563
Prepaid expenses	<u>2,483</u>	<u>89,288</u>
TOTAL CURRENT ASSETS	3,860,107	2,748,018
<u>PROPERTY AND EQUIPMENT, net</u>	29,641,370	28,602,987
<u>OTHER ASSETS</u>		
Security deposit	276,000	226,000
Cash in escrow	<u>100,993</u>	<u>75,899</u>
	<u>376,993</u>	<u>301,899</u>
TOTAL ASSETS	<u>\$ 33,878,470</u>	<u>\$ 31,652,904</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 217,228	\$ 300,597
Accrued payroll and benefits	730,932	570,549
Current portion of capital lease payable	142,324	-
Current portion of note payable	<u>419,087</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	1,509,571	871,146
<u>OTHER LIABILITIES</u>		
Note payable	663,523	-
Capital lease payable	28,399,378	27,495,040
Deferred rent	<u>1,111,939</u>	<u>1,026,717</u>
TOTAL LIABILITIES	31,684,411	29,392,903
<u>NET ASSETS</u>		
Without donor restriction	<u>2,194,059</u>	<u>2,260,001</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,878,470</u>	<u>\$ 31,652,904</u>

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

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	Year ended June 30,	
	2020	2019
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	\$ 8,551,748	\$ 6,220,808
Students with disabilities	301,320	203,954
Grants and contracts		
State and local	113,583	189,594
Federal - Title and IDEA	150,842	153,105
NYCDOE rental assistance	1,180,680	867,793
TOTAL REVENUE, GAINS AND OTHER SUPPORT	10,298,173	7,635,254
Expenses:		
Program services:		
Regular education	7,686,332	5,846,470
Special education	812,812	609,649
TOTAL PROGRAM SERVICES	8,499,144	6,456,119
Management and general	1,949,865	1,491,219
Fundraising and special events	6,120	5,652
TOTAL OPERATING EXPENSES	10,455,129	7,952,990
DEFICIT FROM SCHOOL OPERATIONS	(156,956)	(317,736)
Support and other revenue:		
Contributions	82,805	120,372
Interest income	-	-
Miscellaneous income	8,209	8,060
TOTAL SUPPORT AND OTHER REVENUE	91,014	128,432
CHANGE IN NET ASSETS	(65,942)	(189,304)
Net assets at beginning of year	2,260,001	2,449,305
NET ASSETS AT END OF YEAR	\$ 2,194,059	\$ 2,260,001

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

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	Year ended June 30,								
	2020							2019	
	Number of positions	Program Services			Supporting Services			Total	Total
Regular Education		Special Education	Sub-total	Management and general	Fundraising and special events	Sub-Total			
Personnel services costs:									
Administrative staff personnel	13	\$ 382,566	\$ 39,780	\$ 422,346	\$ 769,010	\$ -	\$ 769,010	\$ 1,191,356	\$ 881,072
Instructional personnel	53	3,251,449	338,091	3,589,540	-	-	-	3,589,540	2,766,932
Non-instructional personnel	5	190,264	19,784	210,048	55,520	-	55,520	265,568	246,663
TOTAL SALARIES AND STAFF	71	3,824,279	397,655	4,221,934	824,530	-	824,530	5,046,464	3,894,667
Fringe benefits & payroll taxes		858,460	89,264	947,724	185,087	-	185,087	1,132,811	844,411
Retirement		114,124	11,867	125,991	24,606	-	24,606	150,597	99,349
Professional fees		-	-	-	287,433	-	287,433	287,433	202,146
Other purchased / professional / consulting services		116,945	25,746	142,691	13,428	2,500	15,928	158,619	240,062
Building and land rent / lease / facility finance interest		1,944,392	202,181	2,146,573	419,219	-	419,219	2,565,792	1,617,141
Repairs & maintenance		120,749	12,556	133,305	26,034	-	26,034	159,339	157,262
Insurance		51,072	5,311	56,383	11,011	-	11,011	67,394	47,914
Utilities		27,551	2,865	30,416	91,413	-	91,413	121,829	121,851
Supplies / materials		152,539	15,861	168,400	-	-	-	168,400	128,568
Office expense		73,880	7,682	81,562	15,929	-	15,929	97,491	87,352
Staff development		108,884	11,310	120,194	3,554	2,320	5,874	126,068	76,553
Staff travel		-	-	-	2,259	1,300	3,559	3,559	8,844
Marketing / recruitment		28,777	2,992	31,769	-	-	-	31,769	31,040
Technology		58,418	6,074	64,492	12,596	-	12,596	77,088	38,704
Food service		21,066	2,191	23,257	4,542	-	4,542	27,799	37,288
Student services		44,167	4,532	48,699	-	-	-	48,699	125,319
Depreciation		130,909	13,612	144,521	28,224	-	28,224	172,745	156,079
Other		10,120	1,113	11,233	-	-	-	11,233	38,440
		<u>\$ 7,686,332</u>	<u>\$ 812,812</u>	<u>\$ 8,499,144</u>	<u>\$ 1,949,865</u>	<u>\$ 6,120</u>	<u>\$ 1,955,985</u>	<u>\$ 10,455,129</u>	<u>\$ 7,952,990</u>

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

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (65,942)	\$ (189,304)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	172,745	156,079
Noncash interest expense	1,046,662	426,123
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(63,261)	84,477
Prepaid expenses	86,805	58,368
Security deposit	(50,000)	-
Accounts payable and accrued expenses	(83,369)	15,011
Accrued payroll and benefits	160,383	16,832
Deferred rent	85,222	47,543
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,289,245	615,129
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,211,128)	(361,487)
Net purchases of certificates of deposit	(255,695)	(2,983)
NET CASH USED FOR INVESTING ACTIVITIES	(1,466,823)	(364,470)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on note payable	1,082,610	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	1,082,610	-
NET INCREASE IN CASH AND RESTRICTED CASH	905,032	250,659
Cash and restricted cash at beginning of year	2,047,806	1,797,147
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 2,952,838</u>	<u>\$ 2,047,806</u>

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Reconciliation of cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 2,851,845	\$ 1,971,907
Cash in escrow	<u>100,993</u>	<u>75,899</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 2,952,838</u>	<u>\$ 2,047,806</u>
Cash paid for interest	<u>\$ 421,775</u>	<u>\$ 156,303</u>
 <u>NON-CASH OPERATING AND INVESTING ACTIVITY</u>		
Property and equipment purchases included in accounts payable	<u>\$ -</u>	<u>\$ 110,390</u>
Construction period interest expense converted to capital lease liability	<u>\$ 1,046,662</u>	<u>\$ 426,123</u>
Capital lease obligation incurred for building	<u>\$ -</u>	<u>\$ 27,068,917</u>

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

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

(With Comparative Totals For 2019)

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

The Charter School

Academy of the City Charter School (the “Charter School”), 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 the Charter School a charter valid for a term of 5 years and renewable upon expiration. The school was granted a charter for grades K-5. On July 26, 2016 the Charter School’s charter renewal was approved for an additional three years. On January 14, 2019, the Charter School’s charter was renewed through June 30, 2024. During the year ended June 30, 2020, the Charter School opened a middle school, initially serving 6th grade.

The Charter School 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.

Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Charter School, the accounts of the Charter School are maintained in accordance with the principles of accounting for not-for-profit organizations. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by Academy of the City Charter School.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At June 30, 2020, \$51,750 of net assets were restricted for student 529 plan contributions. The Charter School had no net assets with donor restrictions at June 30, 2019.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Revenue recognition

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

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

Public school district revenue

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

Rental assistance

Facilities rental assistance funding is provided by the New York City Dept of Education (NYCDOE) to qualifying charter schools located in the five boroughs of NYC. In order to receive rental assistance funding, a charter school must have commenced instruction or added grade levels in the 2014-15 school year or thereafter and go through a space request process with the NYCDOE. If NYCDOE is not able to provide adequate space, the charter school can become eligible for rental assistance. Rental assistance is calculated as the lesser of 30% of the per-pupil tuition rate for NYC times the number of students enrolled, or actual total rental costs. As rental assistance is based on the number of students enrolled, revenue is recognized throughout the year as educational programming is provided to students.

The following table summarizes contract balances at their respective statement of financial position dates:

	June 30,		
	2020	2019	2018
Grants and other receivables	\$ 133,404	\$ 40,428	\$ 146,437

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Contributions

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

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

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

Grant revenue

Some of the Charter School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Charter School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. There were no amounts received prior to incurring qualifying expenditures, which would be reported as deferred revenue in the accompanying statement of financial position at June 30, 2020 and 2019, respectively. The Charter School received cost-reimbursement grants of approximately \$19,855 and \$17,831 that have not been recognized at June 30, 2020 and 2019, respectively, because qualifying expenditures have not yet been incurred.

Cash

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

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$100,993 and \$75,899 at June 30, 2020 and 2019, respectively. The escrow funds are restricted to fund legal and other costs related to the dissolution of the Charter School, should this become necessary.

Certificates of deposit

Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2020 or 2019.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which are as follows:

Furniture and fixtures	–	5 to 7 years
Equipment	–	3 to 5 years
Leasehold improvements	–	20 to 22 years

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.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2017 through June 30, 2020 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. In addition, the Charter School received transportation services, food services, and a school nurse which were provided for the students by the local district. The Charter School was unable to determine a value for these services.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions during the years ended June 30, 2020 and 2019.

Marketing and recruiting costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs were \$31,769 and \$31,040 for the years ended June 30, 2020 and 2019, respectively.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Use of estimates in the preparation of financial statements

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Adoption of new accounting standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter School adopted ASC 606 with the date of initial application of July 1, 2019.

The Charter School applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Charter School does not expect the adoption of the new revenue standard to have a material impact on its income on an ongoing basis.

As part of the adoption of ASC 606, the Charter School elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Charter School adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Statement of cash flows

In November 2016, the FASB issued new guidance related to the statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year balance of cash in the statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Charter School adopted this standard as of July 1, 2019 using the retrospective transition method.

New accounting pronouncement - leases

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

Comparatives for year ended June 30, 2019

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 27, 2020, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: LIQUIDITY AND AVAILABILITY

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

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

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2020 and 2019:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 2,851,845	\$ 1,971,907
Certificates of deposit	862,955	607,260
Grants and other receivables	<u>142,824</u>	<u>79,563</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 3,857,624</u>	<u>\$ 2,658,730</u>

NOTE C: NET ASSETS

Net assets are as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>Without donor restrictions</u>		
Undesignated	\$ 1,094,391	\$ 793,323
Invested in property and equipment, net of related liabilities	<u>1,099,668</u>	<u>1,107,947</u>
	<u>\$ 2,194,059</u>	<u>\$ 2,260,001</u>

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Building under capital lease, not yet placed in service	\$ 27,068,917	\$ 27,068,917
Furniture and fixtures	309,569	290,356
Equipment	668,790	470,314
Leasehold improvements	1,203,041	1,201,899
Construction in progress	<u>1,288,230</u>	<u>295,933</u>
	30,538,547	29,327,419
Less accumulated depreciation and amortization	<u>(897,177)</u>	<u>(724,432)</u>
	<u>\$ 29,641,370</u>	<u>\$ 28,602,987</u>

At June 30, 2020 and 2019 construction in progress of \$1,288,230 and \$295,933, respectively, relates to costs incurred for the middle school building that is not yet in service as of June 30, 2020. Additionally, the building under capital lease, also for the middle school, is not yet in service as of June 30, 2020. No provision is made for depreciation until such time as the relevant assets are put into use. Management does not anticipate any significant additional building costs to be incurred by the Charter School subsequent to June 30, 2020.

NOTE E: OPERATING LEASE

On May 20, 2013, the Charter School entered into a lease with the Roman Catholic Church of Corpus Christi for a location in Woodside, NY. The lease commenced on July 1, 2013 and will expire on June 30, 2035. On August 1, 2015, the Charter School entered into an additional lease with the Roman Catholic Church of Corpus Christi for a location located at Woodside, NY which is the parking lot. The lease commenced on August 1, 2015 and was to expire on July 31, 2020. During September 2019, the parking lot lease was extended to June 30, 2035. In connection with these leases, the Charter School is required to maintain a security deposit with the landlord in the amount of \$276,000.

Future minimum lease payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 1,002,300
2022	1,005,000
2023	1,005,000
2024	1,024,000
2025	1,105,500
Thereafter	<u>12,111,300</u>
	<u>\$ 17,253,100</u>

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE E: OPERATING LEASE, Cont'd

The leases are being straight-lined over the life of the lease. The deferred rent liability as of June 30, 2020 and 2019 was \$1,111,939 and \$1,026,717, respectively.

Rent expense for the years ended June 30, 2020 and 2019 was \$1,093,396 and \$1,015,788, respectively.

NOTE F: CAPITAL LEASE

On February 1, 2019, the Charter School entered into a capital lease with Friends of Academy of the City, Inc., an unrelated entity for space that will be used for a future middle school site. The lease will expire on June 30, 2048. In connection with this lease, the Charter School guarantees the obligations of Friends of Academy of the City, Inc. to their landlord. As of June 30, 2020, the remaining lease payments amounted to \$32,920,245. Interest expense recorded during the years ended June 30, 2020 and 2019 totaled approximately \$1,468,400 and \$582,400, respectively.

Aggregate annual payments on capital lease obligations at June 30, 2020, are:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 1,637,371
2022	1,682,067
2023	1,687,548
2024	1,785,839
2025	1,791,542
Thereafter	<u>48,707,564</u>
	57,291,931
Less amount representing interest	<u>(28,750,229)</u>
Present value of future minimum lease payments	<u>\$ 28,541,702</u>

Property and equipment include the following property under capital leases at June 30, 2020 and 2019:

Buildings	\$ 27,068,917
Less accumulated depreciation	<u>-</u>
	<u>\$ 27,068,917</u>

In connection with the space to be used for a future middle school site, Friends of Academy of the City, Inc. entered into a financing agreement with an unrelated party. As part of the financing agreement between Friends of Academy of the City, Inc, the Charter School is required to comply with certain covenants, of which the school was in compliance at June 30, 2020.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE G: NOTE PAYABLE

In response to the COVID-19 outbreak, in April 2020 the Charter School applied for and was approved by a bank for a loan of \$1,082,610 through the Paycheck Protection Program established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the Charter School. The loan was funded on May 4, 2020.

Estimated annual maturities of the note payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 419,087
2022	<u>663,523</u>
	<u>\$ 1,082,610</u>

NOTE H: RETIREMENT PLAN

The Charter School has a defined contribution retirement plan which covers substantially all full-time employees. For the years ended June 30, 2020 and 2019, the Charter School contributed 4 percent of the employee's contribution to the plan up to the maximum amount allowed. Retirement plan expense under this Plan for the years ended June 30, 2020 and 2019 was \$150,597 and \$99,349, respectively.

NOTE I: CONTINGENCY

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

NOTE J: CONCENTRATIONS

At June 30, 2020 and 2019, approximately 79% and 82%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2020 and 2019, 97% and 94%, respectively, of total revenue and support came from per-pupil funding provided by New York City Department of Education. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE K: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function (including salaries, benefits, purchased services, occupancy costs, and depreciation) are allocated on the basis of estimates of time, effort and usage.

NOTE L: EMPLOYMENT AGREEMENT

The Charter School entered into an employment agreement with the Interim Executive Director effective April 22, 2020 through June 30, 2021. The agreement provides for a minimum annual salary and certain benefits.

NOTE M: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

ACADEMY OF THE CITY CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Academy of the City Charter School, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 27, 2020.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 27, 2020

ACADEMY OF THE CITY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020

Finding 2019-001 Capital Lease

Criteria

A lessee needs to consider the four criteria within the ASC to determine whether a lease should be classified as either a capital lease or an operating lease. One of the criteria of a capital lease is that the present value of the lease payments equals or exceeds 90 percent of the fair value of the leased asset.

Condition/Context

The Charter School entered into a lease in 2019 that met this criteria, however it was initially improperly recorded as an operating lease.

Effect

Property and equipment and capital lease payable were understated on the 2019 statement of financial position.

Cause

The Charter School did not properly evaluate the lease classification.

Recommendation

We recommend that management closely review new leasing arrangements under the standards outlined within GAAP to determine the appropriate lease classification.

Management's response

Management will review the lease criteria in order to ensure future leases are properly recorded in the financial statements.

Status of prior audit finding

Management reviewed terms of new lease agreements to ensure leases were properly recorded in the financial statements. Management considers this finding to be corrected.

ACADEMY OF THE CITY CHARTER SCHOOL

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Cont'd

YEAR ENDED JUNE 30, 2020

Finding 2019-002 Certificates of Deposit

Criteria

Short-term, highly liquid investments are considered cash equivalents when they are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The definition of cash equivalents within the Accounting Standards Codification (ASC) notes that generally only investments with original maturities of three months or less qualify as cash equivalents.

Condition/Context

The Charter School restated prior year balances of certificates of deposit that were included in cash.

Effect

Cash was overstated on the 2018 statements of financial position and cash flows.

Cause

The Charter School included all certificates of deposit in cash on the statements of financial position.

Recommendation

We recommend that management segregate certificates of deposit on the statement of financial position if they do not meet the definition of cash and cash equivalents.

Management's response

Management will review the lead schedules to ensure certificates of deposit are properly classified in the financial statements.

Status of prior finding

Management properly segregated certificates of deposit on the statement of financial position if they did not meet the definition of cash and cash equivalents. Management considers this finding to be corrected.