

New York City Charter School of the Arts

Financial Statements

June 30, 2020 and 2019

Independent Auditors' Report

Board of Trustees
New York City Charter School of the Arts

Report on the Financial Statements

We have audited the accompanying financial statements of New York City Charter School of the Arts (the "School"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' 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 auditors' 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 the School as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, on our consideration of the 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 the 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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
September 29, 2020

New York City Charter School of the Arts

Statements of Financial Position

	June 30,	
	2020	2019
ASSETS		
Current Assets		
Cash	\$ 1,016,677	\$ 108,322
Grants and contracts receivable	56,819	29,115
Prepaid expenses and other current assets	64,806	20,525
Total Current Assets	1,138,302	157,962
Property and equipment, net	767,575	875,054
Security deposit	493,000	196,500
Restricted cash	75,183	75,118
	\$ 2,474,060	\$ 1,304,634
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 114,092	\$ 535,033
Accrued payroll and payroll taxes	186,533	245,941
Deferred rent, current portion	116,439	-
Refundable advances	3,149	-
Total Current Liabilities	420,213	780,974
Loan payable	262,000	131,000
Paycheck Protection Program loan payable	698,263	-
Deferred rent	63,088	47,657
Total Liabilities	1,443,564	959,631
Net assets, without donor restrictions	1,030,496	345,003
	\$ 2,474,060	\$ 1,304,634

See notes to financial statements

New York City Charter School of the Arts

Statements of Activities

	Year Ended June 30,	
	2020	2019
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 4,442,514	\$ 4,115,657
Special education	773,601	601,472
Facilities	1,137,925	1,105,947
Federal grants	188,099	279,109
State grants	24,145	26,606
Total Operating Revenue	6,566,284	6,128,791
EXPENSES		
Program Services		
Regular education	3,771,040	4,364,412
Special education	1,539,490	1,633,673
Total Program Services	5,310,530	5,998,085
Supporting Services		
Management and general	683,353	785,083
Fundraising	7,600	43,765
Total Expenses	6,001,483	6,826,933
Surplus (Deficit) from Operations	564,801	(698,142)
SUPPORT AND OTHER REVENUE		
Grants and contributions	120,627	344,287
Interest and other income	65	578
Total Support and Other Revenue	120,692	344,865
Change in Net Assets	685,493	(353,277)
NET ASSETS		
Beginning of year	345,003	698,280
End of year	\$ 1,030,496	\$ 345,003

See notes to financial statements

New York City Charter School of the Arts

Statement of Functional Expenses
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	12	\$ 411,903	\$ 75,079	\$ 486,982	\$ 262,178	\$ 7,500	\$ 756,660
Instructional personnel	30	1,381,185	684,828	2,066,013	-	-	2,066,013
Non-instructional personnel	<u>1</u>	<u>45,967</u>	<u>7,661</u>	<u>53,628</u>	<u>22,984</u>	<u>-</u>	<u>76,612</u>
Total Salaries and Staff	<u>43</u>	<u>1,839,055</u>	<u>767,568</u>	<u>2,606,623</u>	<u>285,162</u>	<u>7,500</u>	<u>2,899,285</u>
Employee benefits and payroll taxes		329,733	137,621	467,354	50,609	-	517,963
Accounting and audit fees		-	-	-	23,250	-	23,250
Legal fees		7,927	3,308	11,235	1,217	-	12,452
Advertising and recruiting		13,556	5,174	18,730	1,664	-	20,394
Outside contracted services and consultants		124,938	58,983	183,921	76,082	-	260,003
Special events		7,372	1,762	9,134	-	-	9,134
Financial management services		-	-	-	58,674	-	58,674
Contractual services		55,981	13,377	69,358	-	-	69,358
Student meals		85,096	20,335	105,431	-	-	105,431
Staff lunches and team building		2,278	544	2,822	-	-	2,822
Insurance		22,520	9,399	31,919	3,457	-	35,376
Utilities		36,897	15,400	52,297	5,663	-	57,960
Occupancy and rent		869,149	362,757	1,231,906	133,399	-	1,365,305
Classroom supplies		23,415	5,595	29,010	-	-	29,010
Instructional materials and classroom supplies		44,351	12,568	56,919	-	-	56,919
Professional development		13,285	3,175	16,460	-	-	16,460
Maintenance and repairs		67,905	28,342	96,247	10,422	-	106,669
Office supplies		40,032	16,353	56,385	5,870	-	62,255
Telephone and internet services		26,978	11,260	38,238	4,141	-	42,379
Technology		18,939	7,904	26,843	2,907	-	29,750
Student travel		5,874	1,403	7,277	-	-	7,277
Depreciation and amortization		121,577	50,743	172,320	18,659	-	190,979
Miscellaneous		<u>14,182</u>	<u>5,919</u>	<u>20,101</u>	<u>2,177</u>	<u>100</u>	<u>22,378</u>
Total Expenses		<u>\$ 3,771,040</u>	<u>\$ 1,539,490</u>	<u>\$ 5,310,530</u>	<u>\$ 683,353</u>	<u>\$ 7,600</u>	<u>\$ 6,001,483</u>

See notes to financial statements

New York City Charter School of the Arts

Statement of Functional Expenses
Year Ended June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	14	\$ 751,682	\$ 122,646	\$ 874,328	\$ 247,392	\$ 12,187	\$ 1,133,907
Instructional personnel	31	1,375,839	692,684	2,068,523	-	-	2,068,523
Non-instructional personnel	3	30,002	10,001	40,003	60,004	-	100,007
Total Salaries and Staff	48	2,157,523	825,331	2,982,854	307,396	12,187	3,302,437
Employee benefits and payroll taxes		374,675	143,327	518,002	53,382	2,116	573,500
Accounting and audit fees		-	-	-	17,000	-	17,000
Legal fees		7,798	2,983	10,781	1,111	44	11,936
Advertising and recruiting		40,053	14,235	54,288	4,554	180	59,022
Outside contracted services and consultants		199,897	132,936	332,833	86,984	5,188	425,005
Special events		9,177	2,279	11,456	-	-	11,456
Financial management services		-	-	-	141,715	-	141,715
Contractual services		50,401	12,520	62,921	-	-	62,921
Consulting		27,719	6,886	34,605	-	-	34,605
Student meals		119,483	29,680	149,163	-	-	149,163
Staff lunches and team building		21,655	5,379	27,034	-	-	27,034
Insurance		24,235	9,271	33,506	3,453	137	37,096
Utilities		14,156	5,415	19,571	2,018	80	21,669
Occupancy and rent		823,006	281,157	1,104,163	126,668	21,679	1,252,510
Classroom supplies		58,950	14,643	73,593	-	-	73,593
Instructional materials		63,689	17,112	80,801	-	-	80,801
Professional development		33,359	8,287	41,646	-	-	41,646
Maintenance and repairs		40,575	15,521	56,096	5,781	229	62,106
Office supplies		93,096	34,447	127,543	12,345	477	140,365
Telephone and internet services		27,975	10,702	38,677	3,986	158	42,821
Technology		2,954	1,130	4,084	420	17	4,521
Student travel		45,797	11,376	57,173	-	-	57,173
Depreciation and amortization		121,321	46,410	167,731	17,286	685	185,702
Miscellaneous		6,918	2,646	9,564	984	588	11,136
Total Expenses		\$ 4,364,412	\$ 1,633,673	\$ 5,998,085	\$ 785,083	\$ 43,765	\$ 6,826,933

See notes to financial statements

New York City Charter School of the Arts

Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 685,493	\$ (353,277)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	190,979	185,702
Deferred rent	131,870	47,657
Changes in operating assets and liabilities		
Grants and contracts receivable	(27,704)	44,196
Prepaid expenses and other current assets	(44,281)	35,256
Security deposit	(296,500)	-
Accounts payable and accrued expenses	(420,941)	479,488
Accrued payroll and payroll taxes	(59,408)	121,482
Refundable advances	3,149	(32,153)
Net Cash from Operating Activities	162,657	528,351
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(83,500)	(907,910)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan payable	698,263	-
Proceeds from loan payable	131,000	-
Net Cash from Financing Activities	829,263	-
Net Change in Cash and Restricted Cash	908,420	(379,559)
CASH AND RESTRICTED CASH		
Beginning of year	183,440	562,999
End of year	\$ 1,091,860	\$ 183,440
The following table provides a reconciliation of cash and restricted cash within the statements of financial position:		
Cash	\$ 1,016,677	\$ 108,322
Restricted cash	75,183	75,118
	\$ 1,091,860	\$ 183,440

See notes to financial statements

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization and Tax Status

New York City Charter School of the Arts (the “School”) is a New York State, not-for-profit educational corporation that was incorporated on January 4, 2016 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 4, 2016 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School’s mission is to inspire a diverse community of young people to engage with the arts as a pathway to rich and rigorous academic scholarship and a creative purposeful life. The School provided education to approximately 274 students in the sixth through eighth grades during the 2019-2020 academic year.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which 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. Accordingly, actual results could differ from those estimates.

Adoption of New Accounting Policies

Recognition of Contributions

Effective July 1, 2019, the School adopted Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether contributions and grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the School recognizes contributions and grants, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Restricted Cash

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, the School adopted the new guidance regarding the presentation and classification of restricted cash.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Restricted Cash (continued)

The guidance requires the School to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalent balances on the statements of cash flows, 2) provide a reconciliation between the statements of financial position and the statements of cash flows when more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents is presented on the statements of financial position, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statements of cash flows.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Net assets without donor restrictions - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions as of June 30, 2020 and 2019.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$2,500 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment (continued)

All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Furniture and fixtures	7 years
Software	3 years
Computers and equipment	3 and 5 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2020 and 2019.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Deferred Rent

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statements of financial position.

Revenue and Support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current period activities are recorded as net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Advertising and Recruitment

Advertising and recruitment costs are expensed as incurred. Advertising and recruitment expense for the years ended June 30, 2020 and 2019 was \$20,394 and \$59,022.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2017.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 29, 2020.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, city entitlements and grants. The School expects to collect these receivables within one year and no allowance for doubtful accounts has been provided.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	2020	2019
Furniture and fixtures	\$ 305,736	\$ 305,736
Software	15,888	15,888
Computers and equipment	446,815	408,949
Leasehold improvements	<u>456,672</u>	<u>411,038</u>
	1,225,111	1,141,611
Accumulated depreciation and amortization	<u>(457,536)</u>	<u>(266,557)</u>
	<u>\$ 767,575</u>	<u>\$ 875,054</u>

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

5. Liquidity and Availability of Financial Assets

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, are comprised of the following at June 30:

	2020	2019
Cash	\$ 1,016,677	\$ 108,322
Grants and contracts receivable	<u>56,819</u>	<u>29,115</u>
	<u>\$ 1,073,496</u>	<u>\$ 137,437</u>

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is held in liquid instruments until it is required for operational use.

6. Loan Payable

On June 28, 2018, the School entered into a term loan agreement with The Contact Fund, LLC, The New York Pooled PRI Fund, LLC, and Civic Charter Lender, Inc. ("Outside Lenders"), and members of the School's board of trustees ("Board Lenders"), (collectively the "Lenders"). Under terms of the agreement, the Lenders shall make loans to the School up to an aggregate amount of \$589,600. The proceeds of the loans are to be used solely for payment of the security deposit installments required under the sublease with NYFA 26 Broadway, LLC (see Note 11). The loans shall be made in three installments of up to \$196,500 each, with each disbursement coinciding with a security deposit funding under the sublease. The loans will become due and payable, including accrued interest, in three equal installments of \$196,500 starting in July 15, 2022. The loans bear interest at 5.75% per annum through the maturity date of June 28, 2024, and will increase to 8% per annum after the maturity date. At June 30, 2020 and 2019, the School has an outstanding balances of \$262,000 and \$131,000 received from the outside lenders. For purposes of the first draw under this sublease, the School provided the funding for the Board Lenders' component as agreed to by the Outside Lenders.

The outstanding balances of \$262,000 and \$131,000 as of June 30, 2020 and 2019 are due for payment on June 28, 2024.

7. Paycheck Protection Program Loan Payable

On May 6, 2020, the School received a loan under the Paycheck Protection Program authorized by the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in the amount of \$698,263. In accordance with the requirements under the CARES Act, the loan may be forgiven based on the associated spending in accordance with regulations under the CARES Act. For amounts under the loan that are not forgiven, these amounts are due 2 years from the date of the loan and interest would accrue on the unforgiven loan balance at 1% per year. The debt forgiveness will be recognized at the time that the financial institution that issued the loan has reviewed and approved the associated spending and determined the forgivable portion. Management believes that most or all of the loan will be forgiven based on the current understanding of the legislative guidance.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

8. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 2% of the participant's annual compensation. Employer match for the years ended June 30 2020 and 2019 amounted to \$20,417 and \$18,081.

9. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2020 and 2019, approximately \$589,000 and \$0 of cash was maintained with two institutions in excess of FDIC limits.

10. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2020 and 2019, the School received approximately 95% and 90% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

11. Commitments

On March 8, 2018 the School signed a sublease agreement with NYFA 26 Broadway, LLC for facility space under a non-cancelable lease that commenced on September 1, 2018 and expiring June 30, 2028. Under the terms of the sublease, the School is required to make security deposits in the amount of \$196,560 per year beginning in fiscal 2018 and ending fiscal 2020, for a total of \$589,680. At June 30, 2020, the School paid a total of \$493,000. The balance of \$96,680 was paid during the year ending June 30, 2021. The School is responsible for utilities, custodial services, maintenance, school safety services, HVAC, elevator services, and any additional services provided by the landlord to the School. Beginning in the 2019-2020 academic year, the School will not occupy the premises or be responsible for rent for a five week period from July to August each year (the "Summer Term"). The School has the option to occupy the subleased space during the Summer Terms at an additional cost. On May 1, 2018 the sublease was amended to require the School to contribute \$125,000 to the renovation of the elevator. This amount will be paid by the School in twelve equal monthly installments that commenced on September 1, 2018 and is treated as additional rent.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2020 and 2019

11. Commitments *(continued)*

Future minimum payments under the terms of the agreement are as follows for the years ending June 30:

2021	\$ 1,245,094
2022	1,282,446
2023	1,320,920
2024	1,360,547
2025	1,401,364
Thereafter	4,461,420
	<u>\$ 11,071,791</u>

12. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.

13. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

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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 Auditors' Report

**Board of Trustees
New York City Charter School of the Arts**

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 New York City Charter School of the Arts (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, 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 September 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
September 29, 2020