

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, 2021

(With Comparative Totals For 2020)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21

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, 2021, 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, 2021, 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.

Report on Summarized Comparative Information

We have previously audited Academy of the City Charter School's June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 28, 2021 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.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2021

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

(With Comparative Totals For 2020)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 3,513,048	\$ 2,851,845
Certificates of deposit	856,000	862,955
Grants and other receivables	37,090	142,824
Prepaid expenses	<u>104,504</u>	<u>2,483</u>
TOTAL CURRENT ASSETS	4,510,642	3,860,107
<u>PROPERTY AND EQUIPMENT, net</u>	29,254,115	29,641,370
<u>OTHER ASSETS</u>		
Due from Friends of Academy of the City, Inc.	177,380	-
Security deposit	276,000	276,000
Cash in escrow	<u>75,145</u>	<u>100,993</u>
	<u>528,525</u>	<u>376,993</u>
TOTAL ASSETS	<u>\$ 34,293,282</u>	<u>\$ 33,878,470</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 198,241	\$ 217,228
Accrued payroll and benefits	886,550	730,932
Current portion of capital lease payable	195,766	142,324
Current portion of note payable	<u>-</u>	<u>419,087</u>
TOTAL CURRENT LIABILITIES	1,280,557	1,509,571
<u>OTHER LIABILITIES</u>		
Note payable	-	663,523
Capital lease payable	28,203,612	28,399,378
Deferred rent	<u>1,191,163</u>	<u>1,111,939</u>
TOTAL LIABILITIES	30,675,332	31,684,411
<u>NET ASSETS</u>		
Without donor restrictions	3,612,950	2,194,059
With donor restrictions	<u>5,000</u>	<u>-</u>
TOTAL NET ASSETS	<u>3,617,950</u>	<u>2,194,059</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,293,282</u>	<u>\$ 33,878,470</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, 2021
(With Comparative Totals For 2020)

	Year ended June 30,			2020
	2021			
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains, and other support:				
Public school district				
Resident student enrollment	\$ 10,322,429	\$ -	\$ 10,322,429	\$ 8,551,748
Students with disabilities	441,315	-	441,315	301,320
Grants and contracts				
State and local	-	-	-	113,583
Federal - Title and IDEA	188,764	-	188,764	150,842
NYCDOE rental assistance	1,621,450	-	1,621,450	1,180,680
TOTAL REVENUE, GAINS AND OTHER SUPPORT	12,573,958	-	12,573,958	10,298,173
Expenses:				
Program services:				
Regular education	9,112,146	-	9,112,146	7,686,332
Special education	1,069,803	-	1,069,803	812,812
TOTAL PROGRAM SERVICES	10,181,949	-	10,181,949	8,499,144
Management and general	2,157,205	-	2,157,205	1,949,865
Fundraising and special events	3,513	-	3,513	6,120
TOTAL OPERATING EXPENSES	12,342,667	-	12,342,667	10,455,129
 SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	 231,291	 -	 231,291	 (156,956)
Support and other revenue:				
Contributions	98,992	5,000	103,992	82,805
PPP loan forgiveness income	1,082,610	-	1,082,610	-
Miscellaneous income	5,998	-	5,998	8,209
TOTAL SUPPORT AND OTHER REVENUE	1,187,600	5,000	1,192,600	91,014
 CHANGE IN NET ASSETS	 1,418,891	 5,000	 1,423,891	 (65,942)
Net assets at beginning of year	2,194,059	-	2,194,059	2,260,001
NET ASSETS AT END OF YEAR	<u>\$ 3,612,950</u>	<u>\$ 5,000</u>	<u>\$ 3,617,950</u>	<u>\$ 2,194,059</u>

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, 2021
(With Comparative Totals For 2020)

	Year ended June 30,								
	2021							2020	
	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	15	\$ 498,834	\$ 58,439	\$ 557,273	\$ 893,007	\$ -	\$ 893,007	\$ 1,450,280	\$ 1,191,356
Instructional personnel	62	3,875,017	453,959	4,328,976	-	-	-	4,328,976	3,589,540
Non-instructional personnel	6	73,771	8,642	82,413	63,047	-	63,047	145,460	265,568
TOTAL SALARIES AND STAFF	83	4,447,622	521,040	4,968,662	956,054	-	956,054	5,924,716	5,046,464
Fringe benefits & payroll taxes		963,856	112,916	1,076,772	207,189	-	207,189	1,283,961	1,132,811
Retirement		162,304	19,014	181,318	34,889	-	34,889	216,207	150,597
Professional fees		-	-	-	241,069	-	241,069	241,069	287,433
Other purchased / professional / consulting services		327,715	40,703	368,418	66,933	3,513	70,446	438,864	158,619
Building and land rent / lease / facility finance interest		1,933,015	226,453	2,159,468	415,772	-	415,772	2,575,240	2,565,792
Repairs & maintenance		150,580	17,640	168,220	32,368	-	32,368	200,588	159,339
Insurance		63,821	7,477	71,298	13,719	-	13,719	85,017	67,394
Utilities		60,919	7,137	68,056	13,207	-	13,207	81,263	85,473
Office expense		61,866	7,248	69,114	13,299	-	13,299	82,413	97,491
Supplies / materials		142,924	16,743	159,667	-	-	-	159,667	168,400
Staff development		28,156	3,299	31,455	6,053	-	6,053	37,508	126,068
Staff travel		-	-	-	4,590	-	4,590	4,590	3,559
Marketing / recruitment		48,215	5,648	53,863	-	-	-	53,863	31,769
Technology		158,804	18,604	177,408	34,136	-	34,136	211,544	113,444
Food service		1,431	168	1,599	308	-	308	1,907	27,799
Student services		8,440	989	9,429	-	-	-	9,429	48,699
Depreciation		547,171	64,101	611,272	117,619	-	117,619	728,891	172,745
Other		5,307	623	5,930	-	-	-	5,930	11,233
		<u>\$ 9,112,146</u>	<u>\$ 1,069,803</u>	<u>\$ 10,181,949</u>	<u>\$ 2,157,205</u>	<u>\$ 3,513</u>	<u>\$ 2,160,718</u>	<u>\$ 12,342,667</u>	<u>\$ 10,455,129</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, 2021
(With Comparative Totals For 2020)

	<u>Year ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,423,891	\$ (65,942)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	728,891	172,745
Noncash interest expense	-	1,046,662
PPP loan forgiveness income	(1,082,610)	-
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	105,734	(63,261)
Prepaid expenses	(102,021)	86,805
Security deposit	-	(50,000)
Accounts payable and accrued expenses	(18,987)	(83,369)
Accrued payroll and benefits	155,618	160,383
Deferred rent	<u>79,224</u>	<u>85,222</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,289,740	1,289,245
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Increase in due from Friends of Academy of the City, Inc.	(177,380)	-
Purchases of property and equipment	(341,636)	(1,211,128)
Net redemptions (purchases) of certificates of deposit	<u>6,955</u>	<u>(255,695)</u>
NET CASH USED FOR INVESTING ACTIVITIES	(512,061)	(1,466,823)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Payments on capital lease payable	(142,324)	-
Borrowings on note payable	<u>-</u>	<u>1,082,610</u>
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	<u>(142,324)</u>	<u>1,082,610</u>
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	635,355	905,032
Cash, cash equivalents, and restricted cash at beginning of year	<u>2,952,838</u>	<u>2,047,806</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,588,193</u>	<u>\$ 2,952,838</u>

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals For 2020)

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</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 and cash equivalents	\$ 3,513,048	\$ 2,851,845
Cash in escrow	<u>75,145</u>	<u>100,993</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 3,588,193</u>	<u>\$ 2,952,838</u>
Cash paid for interest	<u>\$ 1,493,732</u>	<u>\$ 421,775</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITY</u>		
Construction period interest expense converted to capital lease liability	<u>\$ -</u>	<u>\$ 1,046,662</u>

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

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

(With Comparative Totals For 2020)

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 January 14, 2019, the Charter School’s charter was renewed through June 30, 2024 and expanded to include grades 6-8. 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. The Charter School had \$5,000 of net assets with donor restrictions at June 30, 2021. There were no net assets with donor restrictions at June 30, 2020.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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,		
	2021	2020	2019
Grants and other receivables	\$ 37,090	\$ 133,404	\$ 40,428

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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, 2021 and 2020, respectively. The Charter School received cost-reimbursement grants of approximately \$21,427 and \$19,855 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

Cash and cash equivalents

Cash balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. The Charter School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. 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 \$75,145 and \$100,993 at June 30, 2021 and 2020, 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, 2021

(With Comparative Totals For 2020)

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, 2021 or 2020.

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 27 years

Major renewals and betterments are capitalized, while repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

Deferred rent

Operating lease expense is straight-lined over the term of the lease. Deferred rent has been recorded for the difference between the fixed payment and the straight-line 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, 2018 through June 30, 2021 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, 2021 and 2020.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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

Marketing and recruiting costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs were \$53,863 and \$31,769 for the years ended June 30, 2021 and 2020, respectively.

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.

New accounting pronouncements

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.

Gifts-in-kind

In September 2020, the FASB issued a new accounting update to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind. The update requires not-for-profit entities to present contributed nonfinancial assets separately on the statement of activities, apart from contributions of cash and other financial assets. In addition, the update requires not-for-profit entities to disclose in the notes to the financial statements a breakout of the different types of gifts-in-kind recognized, any donor restrictions associated with the gift, the valuation technique(s) used to arrive at the fair value measure, whether or not the gift-in-kind was monetized, and any policies on monetization. The update is effective for fiscal years beginning after June 15, 2021 and will be applied on a retrospective basis. The Charter School is currently evaluating the provisions of this update to determine the impact it will have on the Charter School’s financial statements.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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

Comparatives for year ended June 30, 2020

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, 2020, 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 28, 2021, 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.

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, 2021 and 2020:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,513,048	\$ 2,851,845
Certificates of deposit	856,000	862,955
Grants and other receivables	<u>37,090</u>	<u>142,824</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 4,406,138</u>	<u>\$ 3,857,624</u>

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

NOTE C: NET ASSETS

Net assets are as follows:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
	<u>Without donor restrictions</u>	
Undesignated	\$ 2,758,213	\$ 1,094,391
Invested in property and equipment, net of related liabilities	<u>854,737</u>	<u>1,099,668</u>
	<u>\$ 3,612,950</u>	<u>\$ 2,194,059</u>
	<u>With donor restrictions</u>	
COVID-19 Education research and intervention	\$ 1,500	\$ -
High school readiness	<u>3,500</u>	<u>-</u>
	<u>\$ 5,000</u>	<u>\$ -</u>

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Building under capital lease	\$ 27,068,917	\$ 27,068,917
Furniture and fixtures	309,569	309,569
Equipment	740,329	668,790
Leasehold improvements	2,761,368	1,203,041
Construction in progress	<u>-</u>	<u>1,288,230</u>
	30,880,183	30,538,547
Less accumulated depreciation and amortization	<u>(1,626,068)</u>	<u>(897,177)</u>
	<u>\$ 29,254,115</u>	<u>\$ 29,641,370</u>

At June 30, 2020 construction in progress of \$1,288,230 related to costs incurred for the middle school building which was not yet in service as of June 30, 2020. Additionally, the building under capital lease, also for the middle school, was 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. The middle school was placed into service effective in January 2021.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

NOTE E: OPERATING LEASE

The Charter School entered into two leases with the Roman Catholic Church of Corpus Christi for a location in Woodside, NY and the related parking lot. The leases expire on 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>
2022	\$ 1,005,000
2023	1,005,000
2024	1,105,000
2025	1,105,500
2026	1,105,500
Thereafter	<u>11,006,000</u>
	<u>\$ 16,332,000</u>

The leases are being straight-lined over the life of the lease. The deferred rent liability as of June 30, 2021 and 2020 was \$1,191,163 and \$1,111,939, respectively.

Rent expense for the years ended June 30, 2021 and 2020 was \$1,081,508 and \$1,093,396, 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. ("Friends"), an unrelated entity, for the middle school facility. The lease will expire on June 30, 2048. In connection with this lease, the Charter School guarantees the obligations of Friends to their landlord. As of June 30, 2021, the remaining lease payments (undiscounted) amounted to \$32,020,245. The Charter School's obligation to Friends is greater than the amount due by Friends to their landlord due to additional improvements and services provided by Friends under the terms of the lease with the Charter School. Interest expense recorded during the years ended June 30, 2021 and 2020 totaled approximately \$1,495,047 and \$1,468,400, respectively.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

NOTE F: CAPITAL LEASE, Cont'd

Aggregate annual payments on capital lease obligations at June 30, 2021, are:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 1,682,067
2023	1,687,548
2024	1,785,839
2025	1,791,542
2026	1,797,359
Thereafter	<u>46,910,205</u>
	55,654,560
Less amount representing interest	<u>(27,255,182)</u>
Present value of future minimum lease payments	<u>\$ 28,399,378</u>

Property and equipment include the following property under capital leases at June 30, 2021 and 2020:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Buildings	\$ 27,068,917	\$ 27,068,917
Less accumulated depreciation	<u>(492,162)</u>	<u>-</u>
	<u>\$ 26,576,755</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, 2021.

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 had a maturity of 2 years and an interest rate of 1%. As of May 10, 2021, the entire balance of the loan of \$1,082,610 was forgiven. PPP loan forgiveness income of \$1,082,610 was recognized for the year ended June 30, 2021.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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, 2021 and 2020, 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, 2021 and 2020 was \$216,207 and \$150,597, 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, 2021 and 2020, approximately 100% and 79%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2021 and 2020, 78% and 97%, 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.

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: FINANCIAL 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 beyond its point of origin. 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 2022.

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Charter School has recognized \$45,438 of revenue relative to ESSER grants during the year ended June 30, 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, 2021, 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 28, 2021.

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, Baw & Co. LLP

Rochester, New York
October 28, 2021