

New York City Charter School of the Arts

Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021, 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
October 25, 2021

New York City Charter School of the Arts

Statements of Financial Position

	June 30,	
	2021	2020
ASSETS		
Current Assets		
Cash	\$ 1,715,498	\$ 1,016,677
Grants and contracts receivable	108,588	56,819
Prepaid expenses and other current assets	160,707	64,806
Total Current Assets	1,984,793	1,138,302
Property and equipment, net	596,738	767,575
Security deposit	589,560	493,000
Restricted cash	75,220	75,183
	\$ 3,246,311	\$ 2,474,060
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 104,751	\$ 114,092
Accrued payroll and payroll taxes	260,845	186,533
Deferred rent, current portion	79,086	116,439
Refundable advances	55,842	3,149
Total Current Liabilities	500,524	420,213
Loan payable	393,000	262,000
Paycheck Protection Program loan payable	698,263	698,263
Deferred rent	216,881	63,088
Total Liabilities	1,808,668	1,443,564
Net assets, without donor restrictions	1,437,643	1,030,496
	\$ 3,246,311	\$ 2,474,060

See notes to financial statements

New York City Charter School of the Arts

Statements of Activities

	Year Ended June 30,	
	2021	2020
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 4,244,540	\$ 4,442,514
Special education	958,076	773,601
Facilities	1,170,863	1,137,925
Federal grants	271,934	188,099
State grants	<u>21,351</u>	<u>24,145</u>
Total Operating Revenue	<u>6,666,764</u>	<u>6,566,284</u>
EXPENSES		
Program Services		
Regular education	3,960,554	3,771,039
Special education	<u>1,884,869</u>	<u>1,539,490</u>
Total Program Services	5,845,423	5,310,529
Supporting Services		
Management and general	439,216	683,354
Fundraising	<u>44,372</u>	<u>7,600</u>
Total Expenses	<u>6,329,011</u>	<u>6,001,483</u>
Surplus from Operations	<u>337,753</u>	<u>564,801</u>
SUPPORT AND OTHER REVENUE		
Grants and contributions	69,355	120,627
Interest and other income	<u>39</u>	<u>65</u>
Total Support and Other Revenue	<u>69,394</u>	<u>120,692</u>
Change in Net Assets	407,147	685,493
NET ASSETS		
Beginning of year	<u>1,030,496</u>	<u>345,003</u>
End of year	<u><u>\$ 1,437,643</u></u>	<u><u>\$ 1,030,496</u></u>

See notes to financial statements

New York City Charter School of the Arts

Statement of Functional Expenses
Year Ended June 30, 2021

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	10	\$ 577,363	\$ 84,553	\$ 661,916	\$ 120,242	\$ 17,950	\$ 800,108
Instructional personnel	29	1,381,216	872,995	2,254,211	-	-	2,254,211
Non-instructional personnel	1	18,222	6,074	24,296	36,444	-	60,740
Total Salaries and Staff	40	1,976,801	963,622	2,940,423	156,686	17,950	3,115,059
Fringe benefits and payroll taxes		375,111	182,854	557,965	29,732	3,406	591,103
Accounting and audit services		-	-	-	106,473	-	106,473
Legal service		5,424	2,644	8,068	431	49	8,548
Outside contracted services and consultants		216,807	94,940	311,747	48,332	11,640	371,719
Occupancy and rent		871,526	424,367	1,295,893	69,252	8,083	1,373,228
Repairs and maintenance		32,848	16,012	48,860	2,605	298	51,763
Insurance		28,635	13,959	42,594	2,270	260	45,124
Utilities		53,530	26,094	79,624	4,243	486	84,353
Supplies and materials		68,873	19,676	88,549	-	-	88,549
Staff development		55,431	14,140	69,571	-	-	69,571
Marketing and recruitment		30,878	13,369	44,247	1,874	215	46,336
Technology		29,133	14,201	43,334	2,309	265	45,908
Food service		15,311	3,906	19,217	-	-	19,217
Student services		10,875	2,774	13,649	-	-	13,649
Office expense		34,612	16,872	51,484	2,743	314	54,541
Depreciation and amortization		127,599	62,200	189,799	10,114	1,159	201,072
Other		27,160	13,239	40,399	2,152	247	42,798
Total Expenses		\$ 3,960,554	\$ 1,884,869	\$ 5,845,423	\$ 439,216	\$ 44,372	\$ 6,329,011

New York City Charter School of the Arts

Statement of Functional Expenses
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		
		Regular Education	Special Education	Total	Management and General	Fundraising	Total
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	1	45,967	7,661	53,628	22,984	-	76,612
Total Salaries and Staff	43	1,839,055	767,568	2,606,623	285,162	7,500	2,899,285
Fringe benefits and payroll taxes		329,733	137,621	467,354	50,609	-	517,963
Accounting and audit services		-	-	-	81,924	-	81,924
Legal service		7,927	3,308	11,235	1,217	-	12,452
Outside contracted services and consultants		180,919	72,360	253,279	76,084	-	329,363
Occupancy and rent		869,149	362,757	1,231,906	133,399	-	1,365,305
Repairs and maintenance		67,905	28,342	96,247	10,422	-	106,669
Insurance		22,520	9,399	31,919	3,456	-	35,375
Utilities		63,875	26,660	90,535	9,804	-	100,339
Supplies and materials		67,766	18,163	85,929	-	-	85,929
Staff development		15,563	3,719	19,282	-	-	19,282
Marketing and recruitment		13,556	5,174	18,730	1,664	-	20,394
Technology		18,939	7,904	26,843	2,907	-	29,750
Food service		85,096	20,335	105,431	-	-	105,431
Student services		13,245	3,165	16,410	-	-	16,410
Office expense		40,032	16,353	56,385	5,870	-	62,255
Depreciation and amortization		121,577	50,743	172,320	18,659	-	190,979
Other		14,182	5,919	20,101	2,177	100	22,378
Total Expenses		\$ 3,771,039	\$ 1,539,490	\$ 5,310,529	\$ 683,354	\$ 7,600	\$ 6,001,483

New York City Charter School of the Arts

Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 407,147	\$ 685,493
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	201,072	190,979
Deferred rent	116,440	131,870
Changes in operating assets and liabilities		
Grants and contracts receivable	(51,769)	(27,704)
Prepaid expenses and other current assets	(95,901)	(44,281)
Security deposit	(96,560)	(296,500)
Accounts payable and accrued expenses	(9,341)	(420,941)
Accrued payroll and payroll taxes	74,312	(59,408)
Refundable advances	52,693	3,149
Net Cash from Operating Activities	598,093	162,657
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(30,235)	(83,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	131,000	131,000
Proceeds from Paycheck Protection Program loan payable	-	698,263
Net Cash from Financing Activities	131,000	829,263
 Net Change in Cash and Restricted Cash	 698,858	 908,420
CASH AND RESTRICTED CASH		
Beginning of year	1,091,860	183,440
End of year	\$ 1,790,718	\$ 1,091,860

See notes to financial statements

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2021 and 2020

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 (the “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 264 students in the sixth through eighth grades during the 2020-2021 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.

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, 2021 and 2020.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2021 and 2020

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

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.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the amounts presented in the statements of cash flows as of the year ended June 30:

	<u>2021</u>	<u>2020</u>
Cash	\$ 1,715,498	\$ 1,016,677
Restricted cash	<u>75,220</u>	<u>75,183</u>
	<u>\$ 1,790,718</u>	<u>\$ 1,091,860</u>

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. 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, 2021 and 2020.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2021 and 2020

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

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.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred. Marketing and recruitment expense for the years ended June 30, 2021 and 2020 was \$46,336 and \$20,394.

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.

Reclassifications

Certain 2020 accounts have been reclassified to conform to the 2021 financial statement presentation.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2021 and 2020

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

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, 2018.

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 October 25, 2021.

On August 10, 2021, the Paycheck Protection Program loan payable was forgiven in full by the U.S. Small Business Administration.

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:

	2021	2020
Furniture and fixtures	\$ 305,736	\$ 305,736
Software	15,888	15,888
Computers and equipment	477,050	446,815
Leasehold improvements	<u>456,672</u>	<u>456,672</u>
	1,255,346	1,225,111
Accumulated depreciation and amortization	<u>(658,608)</u>	<u>(457,536)</u>
	<u>\$ 596,738</u>	<u>\$ 767,575</u>

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2021 and 2020

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:

	2021	2020
Cash	\$ 1,715,498	\$ 1,016,677
Grants and contracts receivable	<u>108,588</u>	<u>56,819</u>
	<u>\$ 1,824,086</u>	<u>\$ 1,073,496</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, 2021 and 2020, the School has an outstanding balances of \$393,000 and \$262,000 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 School must maintain one financial performance covenant of which the School is in compliance with for the year ended June 30, 2021.

The outstanding balances of \$393,000 and \$262,000 as of June 30, 2021 and 2020 are due for payment on June 28, 2024. The balance of this loan was paid in full in October 2021.

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 loan 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, 2021 and 2020

7. Paycheck Protection Program Loan Payable (*continued*)

On August 10, 2021, the loan was forgiven in full by the U.S. Small Business Administration and will be recognized as a gain on forgiveness of loan for fiscal year ended June 30, 2022.

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, 2021 and 2020 amounted to \$20,297 and \$20,417.

9. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and restricted cash 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, 2021 and 2020, approximately \$1,270,000 and \$589,000 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 each of the years ended June 30, 2021 and 2020, the School received approximately 95% 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 Term 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, 2021 and 2020

11. Commitments *(continued)*

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

2022	\$ 1,282,446
2023	1,320,920
2024	1,360,547
2025	1,401,364
2026	1,443,405
Thereafter	<u>3,018,015</u>
	<u>\$ 9,826,697</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 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, 2021, 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 October 25, 2021.

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) as a basis for designing 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 financial statements. 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.

PKF O'Connor Davies, LLP

Harrison, New York
October 25, 2021

Board of Trustees
New York City Charter School of the Arts

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of New York City Charter School of the Arts (the "School") as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, audit committee, Board of Trustees, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

PKF O'Connor Davies, LLP

Harrison, New York
October 25, 2021