

Academy of the City Charter School

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018



Academy of the City Charter School

June 30, 2019 and 2018

Contents

Independent Auditor’s Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8
 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> – Independent Auditor’s Report.....	 17
 Schedule of Findings and Responses	 19
 Corrective Action Plan	 21

Independent Auditor's Report

Board of Trustees
Academy of the City Charter School
Woodside, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Academy of the City Charter School, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Academy of the City Charter School, as of June 30, 2019 and 2018, 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.

Emphasis of Matters

As discussed in *Note 9* to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As described in *Note 10* to the financial statements, during the year ended June 30, 2019, Academy of the City Charter School adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information within the statements of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated October 30, 2019, on our consideration of Academy of the City Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Academy of the City Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Academy of the City Charter School's internal control over financial reporting and compliance.

BKD, LLP

Academy of the City Charter School
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018 (Restated - Note 9)
Assets		
Current Assets		
Cash	\$ 1,971,907	\$ 1,721,362
Certificates of deposit	607,260	604,277
Grants and contracts receivable	79,563	164,040
Prepaid expenses	89,288	147,656
Total current assets	2,748,018	2,637,335
Security deposits	226,000	226,000
Cash - reserve	75,899	75,785
Property and equipment, net	28,602,987	1,218,272
Total assets	\$ 31,652,904	\$ 4,157,392
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 300,597	\$ 175,196
Accrued salaries and related liabilities	570,549	553,717
Total current liabilities	871,146	728,913
Deferred rent	1,026,717	979,174
Capital lease payable	27,495,040	-
Total liabilities	29,392,903	1,708,087
Net Assets Without Donor Restrictions	2,260,001	2,449,305
Total liabilities and net assets	\$ 31,652,904	\$ 4,157,392

Academy of the City Charter School
Statements of Activities
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues and Other Support		
Resident student enrollment	\$ 6,220,808	\$ 5,904,136
Students with disabilities	203,954	233,256
NYCDOE rental assistance revenue	<u>867,793</u>	<u>684,658</u>
Total state and local per-pupil operating revenues	7,292,555	6,822,050
Government grants and contracts	342,699	367,768
Contributions	120,372	71,294
Miscellaneous income	<u>8,060</u>	<u>7,525</u>
Total operating revenues and other support	<u>7,763,686</u>	<u>7,268,637</u>
Expenses		
Program services		
Education	5,846,470	4,831,141
Special education	<u>609,649</u>	<u>585,594</u>
Total program services	<u>6,456,119</u>	<u>5,416,735</u>
Supporting services		
Management and general	1,491,219	1,277,853
Fund raising	<u>5,652</u>	<u>3,400</u>
Total supporting services	<u>1,496,871</u>	<u>1,281,253</u>
Total expenses	<u>7,952,990</u>	<u>6,697,988</u>
Change in Net Assets	(189,304)	570,649
Net Assets, Beginning of Year	<u>2,449,305</u>	<u>1,878,656</u>
Net Assets, End of Year	<u><u>\$ 2,260,001</u></u>	<u><u>\$ 2,449,305</u></u>

Academy of the City Charter School
Statements of Functional Expenses
Years Ended June 30, 2019 and 2018

	** No. of Positions	2019						Total
		Program Services			Support Services			
		Education	Special Education	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries and wages								
Administrative staff personnel	11	\$ 275,313	\$ -	\$ 275,313	\$ 605,759	\$ -	\$ 605,759	\$ 881,072
Instructional personnel	48	2,490,239	276,693	2,766,932	-	-	-	2,766,932
Noninstructional personnel	5	190,688	16,839	207,527	39,136	-	39,136	246,663
Total salaries and wages		2,956,240	293,532	3,249,772	644,895	-	644,895	3,894,667
Payroll taxes and employee benefits		708,669	74,597	783,266	160,494	-	160,494	943,760
Occupancy		786,383	82,777	869,160	251,745	-	251,745	1,120,905
Contracted services		227,435	33,854	261,289	16,773	-	16,773	278,062
Supplies and equipment		66,806	7,032	73,838	13,514	-	13,514	87,352
Repairs and maintenance		119,519	12,581	132,100	25,162	-	25,162	157,262
Professional fees		-	-	-	202,146	-	202,146	202,146
Classroom supplies and textbooks		116,156	12,852	129,008	-	-	-	129,008
Insurance		36,415	3,833	40,248	7,666	-	7,666	47,914
Student and staff recruitment		91,812	10,200	102,012	-	-	-	102,012
Telephone		56,517	5,949	62,466	11,899	-	11,899	74,365
Staff travel		-	-	-	3,192	5,652	8,844	8,844
Student field trips		48,912	5,435	54,347	-	-	-	54,347
Food services		28,339	2,983	31,322	5,966	-	5,966	37,288
Board and staff development		42,003	4,944	46,947	29,606	-	29,606	76,553
Interest		442,644	46,594	489,238	93,188	-	93,188	582,426
Depreciation		118,620	12,486	131,106	24,973	-	24,973	156,079
Total expenses included in the operating expense section on the statement of activities		<u>\$ 5,846,470</u>	<u>\$ 609,649</u>	<u>\$ 6,456,119</u>	<u>\$ 1,491,219</u>	<u>\$ 5,652</u>	<u>\$ 1,496,871</u>	<u>\$ 7,952,990</u>

** Supplementary Information

Academy of the City Charter School
Statements of Functional Expenses (Continued)
Years Ended June 30, 2019 and 2018

	** No. of Positions	2018						Total
		Program Services			Support Services			
		Education	Special Education	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries and wages								
Administrative staff personnel	7	\$ 168,143	\$ 20,381	\$ 188,524	\$ 491,892	\$ -	\$ 491,892	\$ 680,416
Instructional personnel	41	2,288,806	277,431	2,566,237	-	-	-	2,566,237
Noninstructional personnel	5	196,375	23,803	220,178	67,382	-	67,382	287,560
Total salaries and wages		2,653,324	321,615	2,974,939	559,274	-	559,274	3,534,213
Payroll taxes and employee								
benefits		687,411	83,323	770,734	156,694	-	156,694	927,428
Occupancy		768,054	93,098	861,152	241,563	-	241,563	1,102,715
Contracted services		126,014	15,274	141,288	64,108	3,400	67,508	208,796
Supplies and equipment		41,502	5,031	46,533	8,748	-	8,748	55,281
Repairs and maintenance		107,963	13,086	121,049	22,757	-	22,757	143,806
Professional fees		-	-	-	169,734	-	169,734	169,734
Classroom supplies and textbooks		61,443	7,448	68,891	-	-	-	68,891
Insurance		34,940	4,235	39,175	7,364	-	7,364	46,539
Student and staff recruitment		66,096	8,012	74,108	-	-	-	74,108
Telephone		34,483	4,180	38,663	7,268	-	7,268	45,931
Staff travel		-	-	-	2,102	-	2,102	2,102
Student field trips		11,325	1,373	12,698	-	-	-	12,698
Food services		27,240	3,302	30,542	5,742	-	5,742	36,284
Board and staff development		106,667	12,929	119,596	10,432	-	10,432	130,028
Depreciation		104,679	12,688	117,367	22,067	-	22,067	139,434
Total expenses included in the operating expense section on the the statement of activities		\$ 4,831,141	\$ 585,594	\$ 5,416,735	\$ 1,277,853	\$ 3,400	\$ 1,281,253	\$ 6,697,988

** Supplementary Information

Academy of the City Charter School
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018 (Restated - Note 9)
Operating Activities		
Change in net assets	\$ (189,304)	\$ 570,649
Items not requiring (providing) operating cash flows		
Depreciation	156,079	139,434
Noncash interest expense	426,123	-
Changes in		
Grants and contracts receivable	84,477	63,095
Accounts receivable	-	1,517
Prepaid expenses	58,368	(35,642)
Accounts payable and accrued expenses	15,011	(22,036)
Accrued salaries and related liabilities	16,832	120,874
Deferred rent	47,543	126,477
Net cash provided by operating activities	615,129	964,368
Investing Activities		
Fixed asset acquisitions	(361,487)	(115,299)
Net purchases of certificates of deposit	(2,983)	(3,325)
Deposits in cash - reserve	(114)	(114)
Net cash used in investing activities	(364,584)	(118,738)
Net Change in Cash	250,545	845,630
Cash, Beginning of Year	1,721,362	875,732
Cash, End of Year	\$ 1,971,907	\$ 1,721,362
Supplemental Cash Flows Information		
Interest expense converted to capital lease liability	\$ 426,123	\$ -
Capital lease obligation incurred for building	\$ 27,068,917	\$ -
Property and equipment in accounts payable	\$ 110,390	\$ -

Academy of the City Charter School

Notes to Financial Statements

June 30, 2019 and 2018

Note 1: Nature of Organization

Nature of Operations

Academy of the City Charter School (AoC) is an educational corporation that operates as a charter school in the borough of Queens, New York City. On December 14, 2010, the Board of Regents and the Board of Trustees of the University of the State of New York, for and on behalf of the State Education Department, granted AoC a charter valid for a term of 5 years and renewable upon expiration. The school was granted a charter for grades K-5. On July 26, 2016 the school's charter renewal was approved for an additional three years. On January 14, 2019, AoC's charter was renewed through June 30, 2024.

AoC was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. During each of the fiscal years ended June 30, 2019 and 2018, AoC operated classes for approximately 410 students in grades K-5. Subsequent to the end of the year, AoC was approved for, and opened a middle school.

AoC is supported primarily by state and local per-pupil operating revenues.

Use of Estimates

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

Cash

At June 30, 2019, AoC's cash accounts exceeded federally insured limits by approximately \$1,835,000.

Certificates of Deposit

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

Cash – Reserve

As part of AoC's charter agreement, AoC agreed to establish a long-term reserve account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Academy of the City Charter School

Notes to Financial Statements

June 30, 2019 and 2018

Receivables

Receivables are recorded when services are rendered and are stated at amount billed. Receivables are presented net of allowances for doubtful accounts. Receivables are ordinarily due upon issuance of the invoice. Receivables past due more than 30 days are considered delinquent. The allowances are based on management's evaluation of the collectability of the related accounts.

Allowance for Doubtful Accounts

Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management deemed no allowance necessary for the years ended June 30, 2019 and 2018.

Property and Equipment

Property and equipment acquisitions over \$1,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture and fixtures	3 - 5 years
Equipment	3 - 5 years
Leasehold improvements	20-25 years

Long-Lived Asset Impairment

AoC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Academy of the City Charter School

Notes to Financial Statements

June 30, 2019 and 2018

State and Local Per-Pupil Operating Revenues

Revenues from the state and local governments resulting from AoC's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by AoC when services are rendered.

Grants and Contracts Revenue and Receivables

Revenues from government grants and contracts to which AoC is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by AoC. Receivables are recorded when the revenue is earned.

Contributions

Contributions are provided to AoC either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on a future and uncertain event	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor imposed condition is substantially met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, 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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Academy of the City Charter School

Notes to Financial Statements

June 30, 2019 and 2018

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Deferred Rent

Operating leases are straight-lined over the term of the lease. Deferred rent has been recorded for the difference between the fixed payment and the rent expense.

Income Taxes

AoC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, AoC is subject to federal income tax on any unrelated business taxable income. AoC files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on estimates of time and effort and other methods.

Note 2: Property and Equipment

	<u>2019</u>	<u>2018</u>
Building under capital lease not yet placed in service	\$ 27,068,917	\$ -
Furniture and fixtures	290,356	238,291
Equipment	470,314	405,514
Leasehold improvements	<u>1,497,832</u>	<u>1,142,820</u>
	29,327,419	1,786,625
Less accumulated depreciation and amortization	<u>(724,432)</u>	<u>(568,353)</u>
	<u>\$ 28,602,987</u>	<u>\$ 1,218,272</u>

Academy of the City Charter School
Notes to Financial Statements
June 30, 2019 and 2018

Note 3: Lease Commitments

Operating Leases

On May 20, 2013, AoC entered into a lease with the Roman Catholic Church of Corpus Christi for a location in Woodside, NY. The lease commenced on July 1, 2013 and will expire on June 30, 2035. On August 1, 2015, AoC entered into an additional lease with the Roman Catholic Church of Corpus Christi for a location located at Woodside, NY which is the parking lot. The lease commenced on August 1, 2015 and will expire on July 31, 2020.

The future minimum lease payments as of June 30, 2019 are:

2020	\$ 972,174
2021	828,117
2022	814,986
2023	814,986
2024	896,484
Thereafter	<u>10,725,537</u>
	<u>\$ 15,052,284</u>

The leases are being straight-lined over the life of the lease. The deferred rent liability as of June 30, 2019 and 2018 was \$1,690,103 and \$979,174, respectively.

Rent expense for both of the years ended June 30, 2019 and 2018 was \$1,015,788.

Capital Lease

On February 1, 2019, AoC entered into a capital lease with Friends of Academy of the City, Inc., an unrelated entity for space that will be used for a future middle school site. The lease will expire on June 30, 2048.

Aggregate annual payments on capital lease obligations at June 30, 2019, are:

2020	\$ 421,775
2021	1,637,371
2022	1,682,067
2023	1,687,548
2024	1,785,839
Thereafter	<u>50,499,105</u>
	57,713,705
Less amount representing interest	<u>(30,218,665)</u>
Present value of future minimum lease payments	<u>\$ 27,495,040</u>

Academy of the City Charter School
Notes to Financial Statements
June 30, 2019 and 2018

Note 6: Liquidity and Availability

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

Cash and cash equivalents	\$ 1,971,907
Certificates of deposit	607,260
Grants and contracts receivable	<u>79,563</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,658,730</u>

AoC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. AoC monitors liquidity and cash flows on an ongoing basis to ensure an appropriate amount of cash is available to meet current expenditure needs.

Note 7: Pension

AoC has a defined contribution retirement plan with Principal Financial which covers substantially all full-time employees. For the years ended June 30, 2019 and 2018, AoC contributed 4 percent of the employee's contribution to the plan up to the maximum amount allowed. Pension expense under this plan for the years ended June 30, 2019 and 2018 was \$99,349 and \$93,223, respectively.

Note 8: Subsequent Events

Subsequent events have been evaluated through October 30, 2019, which is the date the financial statements were available to be issued.

Academy of the City Charter School

Notes to Financial Statements

June 30, 2019 and 2018

Note 9: Restatement of Prior-Year Financial Statements

In prior years, AoC reported certificates of deposits as cash and cash equivalents. However, these certificates of deposit had original maturity dates in excess of three months, and therefore did not qualify as cash and cash equivalents under generally accepted accounting principles. As a result, the following financial statement line items for fiscal year 2018 were restated to correct this error:

	As Restated	As Previously Reported	Effect of Change
Statements of Financial Position			
Cash	\$ 1,721,362	\$ 2,325,639	\$ (604,277)
Certificates of deposit	604,277	-	604,277
Statements of Cash Flows			
Net purchases of certificates of deposit	(3,325)	-	(3,325)
Net cash used in investing activities	(118,738)	(115,413)	(3,325)
Net change in cash	845,630	848,955	(3,325)
Cash, beginning of year	875,732	1,476,684	(600,952)
Cash, end of year	1,721,362	2,325,639	(604,277)

Note 10: Change in Accounting Principle

During the year ended June 30, 2019, AoC adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statements of Activities and Functional Expenses

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

Academy of the City Charter School
Notes to Financial Statements
June 30, 2019 and 2018

This change had no impact on previously reported total change in net assets.

Note 11: Future Accounting Changes

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018 for nonpublic entities. AoC is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the School annual periods beginning after December 15, 2019 and any interim periods within annual reporting periods that begin after December 15, 2020. However, a board decision was reached by FASB to delay the effective date of Topic 842 by one year for certain types of organizations, which would include AoC. Issuance of a final accounting standards update related to this decision is expected in late 2019. AoC is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have an impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Trustees
Academy of the City Charter School
Woodside, New York

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, 2019, 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 30, 2019. Our report contained “Emphasis of Matter” paragraphs regarding a restatement of prior year financial statements and a change in accounting principles.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

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*.

Academy of the City Charter School's Response to Findings

Academy of the City Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Academy of the City Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

BKD, LLP

New York, New York
October 30, 2019

Academy of the City Charter School
Schedule of Findings and Responses
June 30, 2019

Financial Statement Findings

2019-001 Capital Lease

Criteria	A lessee needs to consider the four criteria within the ASC to determine whether a lease should be classified as either a capital lease or an operating lease. One of the criteria of a capital lease is that the present value of the lease payments equals or exceeds 90 percent of the fair value of the leased asset.
Condition/Context	AoC entered into a lease in 2019 that met this criteria, however it was initially improperly recorded as an operating lease.
Effect	Property and equipment and capital lease payable were understated on the 2019 statement of financial position.
Cause	AoC did not properly evaluate the lease classification.
Recommendation	We recommend that management closely review new leasing arrangements under the standards outlined within GAAP to determine the appropriate lease classification.
View of Responsible Officials and Planned Corrective Actions	Management will review the lease criteria in order to ensure future leases are properly recorded in the financial statements. See corrective action plan.

Academy of the City Charter School
Schedule of Findings and Responses (Continued)
June 30, 2019

Financial Statement Findings

2019-002 Certificates of Deposit

Criteria	Short-term, highly liquid investments are considered cash equivalents when they are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The definition of cash equivalents within the Accounting Standards Codification (ASC) notes that generally only investments with original maturities of three months or less qualify as cash equivalents.
Condition/Context	AoC restated prior year balances of certificates of deposit that were included in cash.
Effect	Cash was overstated on the 2018 statements of financial position and cash flows.
Cause	AoC included all certificates of deposit in cash on the statements of financial position.
Recommendation	We recommend that management segregate certificates of deposit on the statement of financial position if they do not meet the definition of cash and cash equivalents.
View of Responsible Officials and Planned Corrective Actions	Management will review the lead schedules to ensure certificates of deposit are properly classified in the financial statements. See corrective action plan.



Corrective Action Plan

June 30, 2019

Finding: 2019-001 – Capital Lease

Name of Contact Person and Title: Digant Bahl, Outsourced CFO

Anticipated Implementation Date: 11/1/2019

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

Finding: 2019-002 – Certificates of Deposit

Name of Contact Person and Title: Digant Bahl, Outsourced CFO

Anticipated Implementation Date: 11/1/2019

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

Board of Trustees and Management
Academy of the City Charter School
Woodside, New York

In planning and performing our audit of the financial statements of Academy of the City Charter School (AoC) as of and for the year ended June 30, 2019, 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, we considered AoC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AoC's internal control. Accordingly, we do not express an opinion on the effectiveness of AoC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

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 AoC's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be a material weakness and a significant deficiency.

Material Weakness

Capital Lease

The lease for the new middle school building met the criteria under generally accepted accounting principles (GAAP) to be recorded as a capital lease, however, it was initially improperly recorded as an operating lease. We recommend that management closely review new leasing arrangements under the standards outlined within GAAP to determine the appropriate lease classification.

Significant Deficiency

Certificates of Deposit

Certificates of deposit with original maturities of greater than three months were inappropriately included in cash equivalents. This adjustment resulted in management restating the prior year balances of cash and certificates of deposit on the statements of financial position and the statements of cash flows. We recommend that management segregate certificates of deposit on the financial statements if they do not meet the definition of cash and cash equivalents.

This communication is intended solely for the information and use of management, the Board of Trustees and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

New York, New York
October 30, 2019



Corrective Action Plan

June 30, 2019

Finding: 2019-001 – Capital Lease

Name of Contact Person and Title: Digant Bahl, Outsourced CFO

Anticipated Implementation Date: 11/1/2019

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

Finding: 2019-002 – Certificates of Deposit

Name of Contact Person and Title: Digant Bahl, Outsourced CFO

Anticipated Implementation Date: 11/1/2019

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