

**ACADEMY OF THE CITY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2015 AND 2014

ACADEMY OF THE CITY CHARTER SCHOOL

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**Independent Auditor's Report on Financial Statements
and Supplementary Information**

**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 balance sheet as of June 30, 2015 and 2014, and the related statements of activities, 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, 2015 and 2014, 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.

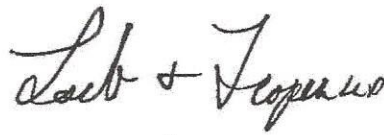
Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedule 1 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 audit 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 have also issued our report dated September 21, 2015 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 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.

A handwritten signature in cursive script, reading "Loeb & Troper".

September 21, 2015

ACADEMY OF THE CITY CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash	\$ 1,093,331	\$ 367,128
Grants and contracts receivable	8,660	4,189
Accounts receivable - net (Note 3)	9,693	4,859
Security deposits	86,000	86,000
Prepaid expenses and other receivables	<u>54,565</u>	<u>106,253</u>
Total current assets	1,252,249	568,429
Cash - reserve (Note 2)	75,400	75,247
Fixed assets - net (Note 4)	<u>663,805</u>	<u>478,967</u>
Total assets	<u>\$ 1,991,454</u>	<u>\$ 1,122,643</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 125,803	\$ 80,376
Accrued salaries and related liabilities	<u>353,114</u>	<u>338,367</u>
Total current liabilities	478,917	418,743
Deferred rent	<u>588,854</u>	<u>349,227</u>
Total liabilities	1,067,771	767,970
Net assets (Exhibit B)		
Unrestricted	<u>923,683</u>	<u>354,673</u>
Total liabilities and net assets	<u>\$ 1,991,454</u>	<u>\$ 1,122,643</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B**ACADEMY OF THE CITY CHARTER SCHOOL****STATEMENT OF ACTIVITIES****YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating revenues and other support		
State and local per-pupil operating revenues	\$ 5,171,188	\$ 3,890,072
Government grants and contracts	269,726	270,836
Auxiliary program revenues	85,441	54,293
Contributions	58,248	20,304
Miscellaneous income	23,742	3,153
	<u>5,608,345</u>	<u>4,238,658</u>
Total operating revenues and other support		
Expenses (Schedule 1)		
Program services		
Education	3,463,594	2,548,187
Special education	497,602	482,558
	<u>3,961,196</u>	<u>3,030,745</u>
Total program services		
Supporting services		
Management and general	1,057,454	1,079,252
Fund raising	20,685	14,656
	<u>1,078,139</u>	<u>1,093,908</u>
Total supporting services		
Total expenses	<u>5,039,335</u>	<u>4,124,653</u>
Change in unrestricted net assets (Exhibit C)	569,010	114,005
Net assets, unrestricted - beginning of year	<u>354,673</u>	<u>240,668</u>
Net assets, unrestricted - end of year (Exhibit A)	<u>\$ 923,683</u>	<u>\$ 354,673</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 569,010	\$ 114,005
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	73,825	71,028
Decrease (increase) in assets		
Grants and contracts receivable	(4,471)	153,743
Accounts receivable	(4,834)	(4,859)
Security deposits		10,000
Prepaid expenses and other receivables	51,688	(58,526)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	45,427	(41,938)
Accrued salaries and related liabilities	14,747	143,677
Refundable advances		(14)
Deferred rent	239,627	349,227
Net cash provided by operating activities	<u>985,019</u>	<u>736,343</u>
Cash flows from investing activities		
Fixed asset acquisitions	(258,663)	(360,177)
Cash - deposits in escrow	(153)	(25,247)
Net cash used by investing activities	<u>(258,816)</u>	<u>(385,424)</u>
Cash flows from financing activities		
Principal payments on loans		<u>(3,125)</u>
Net change in cash	726,203	347,794
Cash - beginning of year	<u>367,128</u>	<u>19,334</u>
Cash - end of year	<u>\$ 1,093,331</u>	<u>\$ 367,128</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF ORGANIZATION

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 from K-5. 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 fiscal year 2015, AoC operated classes for 358 students in grades K-4. In 2014, AoC operated classes for 276 students in grades K-3.

Academy of the City Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. AoC is supported primarily by state and local per-pupil operating revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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 and expenses during the reporting period. Actual results could differ from those estimates.

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.

Accounts receivable - Accounts receivable consist of unpaid afterschool program balances and other charges earned but not yet received. Receivables are presented net of allowances for doubtful accounts. Interest is not accrued or recorded on outstanding receivables.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. Allowance for doubtful accounts as of June 30, 2015 and 2014, respectively, are \$0 and, \$20,000.

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$1,000 and an estimated useful life of more than one year are capitalized. Depreciation is provided on the straight-line basis over the estimated useful lives of assets. Leasehold improvements are amortized over the term of the lease.

Refundable advances - Refundable advances are monies owed to New York City Department of Education when payments received exceed the per-pupil revenue.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

State and local per-pupil 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.

Auxiliary program revenue - Auxiliary program revenues are revenues from afterschool program and food services, which are recognized on the accrual basis. Students are billed in advance of services rendered, and revenues are recognized as earned.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors.

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.

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - The costs of providing AoC's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - AoC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2012 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 21, 2015, which is the date the financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable for the year ended June 30, 2015 was as follows:

Accounts receivable - current	\$ 9,693
Allowance for doubtful accounts	<u>-</u>
Accounts receivable - net	<u>\$ 9,693</u>

Accounts receivable for the year ended June 30, 2014 was as follows:

Accounts receivable - current	\$ 24,859
Allowance for doubtful accounts	<u>(20,000)</u>
Accounts receivable - net	<u>\$ 4,859</u>

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 4 - FIXED ASSETS

	<u>2015</u>	<u>2014</u>	<u>Useful Lives</u>
Furniture and fixtures	\$ 137,731	\$ 107,805	3-5 years
Equipment	206,871	142,070	3-5 years
Leasehold improvements	503,695	341,802	22 years
Construction in progress	<u>8,543</u>	<u>6,500</u>	
	856,840	598,177	
Accumulated depreciation	<u>(193,035)</u>	<u>(119,210)</u>	
	\$ <u>663,805</u>	\$ <u>478,967</u>	

NOTE 5 - LOAN PAYABLE

In February 2014, AoC entered into a revolving line of credit agreement with Raza Development Fund, Inc. authorizing AoC to access a maximum of \$150,000 for which the proceeds would be used to provide short-term working capital. The effective interest rate is 7%. The loan is secured by eligible accounts receivable. As of June 30, 2015, there was no outstanding balance. The line of credit expires annually with an option to renew.

NOTE 6 - LEASE COMMITMENT

On May 20, 2013, AoC entered into a new lease with the Roman Catholic Church of Corpus Christi for a new location located in Woodside, NY. The lease commenced on July 1, 2013 and will expire on June 30, 2035.

The future minimum lease payments as of June 30, 2015 are:

2016	\$ 740,896
2017	740,896
2018	740,896
2019	814,986
2020	814,986
Thereafter	<u>14,066,978</u>
	\$ <u>17,919,638</u>

Rent expense for the years ended June 30, 2015 and 2014 was \$869,649 and \$868,429, respectively.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****NOTE 7 - CONTINGENCIES AND CONCENTRATIONS**

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

A significant portion of AoC's operating revenue is paid by New York City Department of Education.

NOTE 8 - RELATED-PARTY TRANSACTION

AoC entered into an agreement with a not-for-profit organization (The Open School Project) employing a member of the board of AoC. The Open School Project's Board of Directors consists of five members, two of which are related to AoC by common board service, one of whom is the executive director of The Open School Project. The agreement is for supporting services including marketing, facility relocation search and advocacy. AoC paid The Open School Project \$206,848 in 2015 and \$145,383 in 2014.

NOTE 9 - PENSIONS

ACCS has a defined contribution retirement plan with Principal Financial which covers substantially all full-time employees. ACCS contributes an amount equal to 3% in 2015 and 2014 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, 2015 and 2014 was \$43,511 and \$39,455, respectively.

ACADEMY OF THE CITY CHARTER SCHOOL

SCHEDULE 1

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	No. of Positions	Program Services			Supporting Services			Total
		Education	Special Education	Total	Management and General	Fund Raising	Total	
Personnel service costs								
Administrative staff personnel	7	\$ 191,944	\$ 16,691	\$ 208,635	\$ 316,825		\$ 316,825	\$ 525,460
Instructional personnel	36	1,553,469	244,974	1,798,443				1,798,443
Noninstructional personnel	5	125,314	10,897	136,211	58,618		58,618	194,829
Salaries		1,870,727	272,562	2,143,289	375,443		375,443	2,518,732
Payroll taxes and employee benefits		403,630	59,999	463,629	81,817		81,817	545,446
Occupancy		705,112	104,814	809,926	142,928		142,928	952,854
Contracted services					293,936	\$ 20,685	314,621	314,621
Supplies and equipment		33,651	5,002	38,653	6,821		6,821	45,474
Repairs and maintenance		104,160	15,483	119,643	21,113		21,113	140,756
Professional fees					97,853		97,853	97,853
Classroom supplies and textbooks		151,702	13,192	164,894				164,894
Insurance		50,096	7,447	57,543	10,155		10,155	67,698
Student and staff recruitment		24,816	2,158	26,974				26,974
Telephone		24,194	3,596	27,790	4,904		4,904	32,694
Staff travel					3,765		3,765	3,765
Student field trips		6,513	566	7,079				7,079
Food services		11,101	1,650	12,751	2,250		2,250	15,001
Board and staff development		16,045	2,386	18,431	5,396		5,396	23,827
Depreciation		54,631	8,121	62,752	11,073		11,073	73,825
Miscellaneous expenses		7,216	626	7,842				7,842
Total expenses (Exhibit B)		<u>\$ 3,463,594</u>	<u>\$ 497,602</u>	<u>\$ 3,961,196</u>	<u>\$ 1,057,454</u>	<u>\$ 20,685</u>	<u>\$ 1,078,139</u>	<u>\$ 5,039,335</u>

See independent auditor's report.



**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**

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 Academy of the City Charter School, which comprise the balance sheet as of June 30, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 21, 2015.

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.

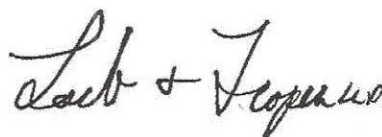
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



September 21, 2015

ACADEMY OF THE CITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

None Noted

ACADEMY OF THE CITY CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2015



**Board of Trustees
Academy of the City Charter School**

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, 2015 in accordance with auditing standards generally accepted in the United States of America, 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.

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.

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 material weaknesses. 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.

We wish to make the following observations and recommendations for consideration by management.

Purchase Orders

We noted during our audit that there is a purchase order form; however, it is being filled out after the purchases are being made. We recommend that formal policies relating to purchasing and receiving are followed correctly

Conflict of Interest Policy

We noted that the School does have a formal conflict of interest policy for the Board of Trustees. However, we did not receive any signed conflict of interest forms to review for the year under audit. The New York State Non Profit Realization Act requires all board members and key employees to sign and return to the audit committee certifications that they do not have any conflict or disclosures as to any conflicts that may exist.

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.

Lash & Troper LLP

September 21, 2015