

**ACADEMY OF THE CITY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2014 AND 2013

ACADEMY OF THE CITY CHARTER SCHOOL

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LOEB & TROPER LLP

**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, 2014 and 2013, 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, 2014 and 2013, 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 audit was 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 24, 2014 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 LLP".

September 24, 2014

ACADEMY OF THE CITY CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash	\$ 367,128	\$ 19,334
Grants and contracts receivable	4,189	157,932
Accounts receivable - net (Note 3)	4,859	
Security deposits	86,000	96,000
Prepaid expenses and other receivables	<u>106,253</u>	<u>47,727</u>
Total current assets	568,429	320,993
Cash - reserve (Note 2)	75,247	50,000
Fixed assets - net (Note 4)	<u>478,967</u>	<u>189,818</u>
Total assets	<u>\$ 1,122,643</u>	<u>\$ 560,811</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 80,376	\$ 122,314
Accrued salaries and related liabilities	338,367	194,690
Loan payable (Note 5)		3,125
Refundable advances		<u>14</u>
Total current liabilities	418,743	320,143
Deferred rent	<u>349,227</u>	
Total liabilities	767,970	320,143
Net assets (Exhibit B)		
Unrestricted	<u>354,673</u>	<u>240,668</u>
Total liabilities and net assets	<u>\$ 1,122,643</u>	<u>\$ 560,811</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues and other support		
State and local per-pupil operating revenues	\$ 3,890,072	\$ 2,142,097
Government grants and contracts	270,836	415,954
Auxiliary program revenues	54,293	7,962
Contributions	20,304	24,791
In-kind contribution (Note 6)		220,000
Miscellaneous income	3,153	
	<u>4,238,658</u>	<u>2,810,804</u>
Total operating revenues and other support		
Expenses (Schedule 1)		
Program services		
Education	2,548,187	1,719,623
Special education	482,558	242,787
	<u>3,030,745</u>	<u>1,962,410</u>
Total program services		
Supporting services		
Management and general	1,079,252	654,301
Fund raising	14,656	15,000
	<u>1,093,908</u>	<u>669,301</u>
Total supporting services		
Total expenses	<u>4,124,653</u>	<u>2,631,711</u>
Change in unrestricted net assets (Exhibit C)	114,005	179,093
Net assets, unrestricted - beginning of year	<u>240,668</u>	<u>61,575</u>
Net assets, unrestricted - end of year (Exhibit A)	<u>\$ 354,673</u>	<u>\$ 240,668</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 114,005	\$ 179,093
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	71,028	29,855
Decrease (increase) in assets		
Grants and contracts receivable	153,743	(45,218)
Accounts receivable	(4,859)	
Security deposits	10,000	(86,000)
Prepaid expenses and other receivables	(58,526)	(47,727)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(41,938)	83,419
Accrued salaries and related liabilities	143,677	67,947
Refundable advances	(14)	(18,314)
Deferred rent	349,227	
Net cash provided by operating activities	<u>736,343</u>	<u>163,055</u>
Cash flows from investing activities		
Fixed asset acquisitions	(360,177)	(141,735)
Cash - deposits in escrow	(25,247)	(50,000)
Net cash used by investing activities	<u>(385,424)</u>	<u>(191,735)</u>
Cash flows from financing activities		
Principal payments on loans	(3,125)	(7,500)
Net change in cash	347,794	(36,180)
Cash - beginning of year	19,334	55,514
Cash - end of year	<u>\$ 367,128</u>	<u>\$ 19,334</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, 2014 AND 2013

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 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.

The school was originally incorporated as Our World Neighborhood Charter School II. On November 29, 2011, the school's name was legally changed to Academy of the City Charter School.

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 consists 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, 2014 AND 2013****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, 2014 is \$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, 2014 AND 2013

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, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 24, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - ACCOUNTS RECEIVABLE

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>

NOTE 4 - FIXED ASSETS

	<u>2014</u>	<u>2013</u>	<u>Useful Lives</u>
Furniture and fixtures	\$ 107,805	\$ 35,787	3-5 years
Equipment	142,070	94,166	3-5 years
Leasehold improvements	341,802		22 years
Construction in progress	<u>6,500</u>	<u>108,047</u>	
	598,177	238,000	
Accumulated depreciation	<u>(119,210)</u>	<u>(48,182)</u>	
	<u>\$ 478,967</u>	<u>\$ 189,818</u>	

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ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 5 - LOAN PAYABLE

On March 7, 2011, AoC entered into an unsecured loan for \$15,000. Interest on the loan is at 2% per annum. The loan was repaid in January 1, 2014.

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, 2014, there was no outstanding balance. The line of credit expires annually with an option to renew.

NOTE 6 - IN-KIND CONTRIBUTIONS

AoC received in-kind rent valued at \$220,000 for the year ended June 30, 2013.

NOTE 7 - LEASE COMMITMENT

AoC had a sublease agreement with The Voice Charter School of New York. During this term, AoC was not required to make any payments. As of June 30, 2013, there was an in-kind contribution of \$220,000, the fair market value of the annual rent. The term of the sublease expired on June 30, 2013.

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, 2014 are:

2015	\$ 626,912
2016	740,896
2017	740,896
2018	740,896
2019	814,986
Thereafter	<u>14,881,963</u>
	<u>\$ 18,546,549</u>

Rent expense for the years ended June 30, 2014 and 2013 was \$868,429 and \$220,000, respectively.

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ACADEMY OF THE CITY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 8 - 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 9 - 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, three 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 \$145,383 in 2014 and \$150,000 in 2013.

ACADEMY OF THE CITY CHARTER SCHOOL

SCHEDULE 1

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	No. of Positions	Program Services			Supporting Services		
		Education	Special Education	Total	Management and General	Fund Raising	Total
Personnel service costs							
Administrative staff personnel	5	\$ 138,920	\$ 12,080	\$ 151,000	\$ 262,200	\$	\$ 413,200
Instructional personnel	27	1,111,936	237,039	1,348,975			1,348,975
Noninstructional personnel	4				155,115		155,115
Salaries		1,250,856	249,119	1,499,975	417,315		417,315
Payroll taxes and employee benefits							1,917,290
Occupancy		280,601	56,120	336,721	94,973		94,973
Contracted services		599,734	119,947	719,681	202,986		202,986
Supplies and equipment		87,154	7,738	94,892	138,358	\$ 14,656	153,014
Repairs and maintenance		41,868	8,374	50,242	14,171		14,171
Professional fees		77,810	15,562	93,372	26,336		26,336
Classroom supplies and textbooks					95,643		95,643
Insurance		76,534	6,655	83,189			83,189
Student and staff recruitment		6,309	549	6,858	32,972		32,972
Telephone		16,078	3,216	19,294	3,934		3,934
Staff travel		3,571	310	3,881	5,441		5,441
Student field trips		32,434	2,820	35,254	226		226
Food services		14,411	1,253	15,664			35,254
Board and staff development		11,253	979	12,232	10,119		10,119
Depreciation		46,168	9,234	55,402	15,626		15,626
Bad debt					20,000		20,000
Miscellaneous expenses		3,406	682	4,088	1,152		1,152
Total expenses (Exhibit B)		\$ 2,548,187	\$ 482,558	\$ 3,030,745	\$ 1,079,252	\$ 14,656	\$ 4,124,653

See independent auditor's report.



LOEB & TROPER LLP

**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, 2014 and 2013, 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 24, 2014.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 did identify a certain deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2014-01 that we consider to be a significant deficiency.

Compliance and Other Matters

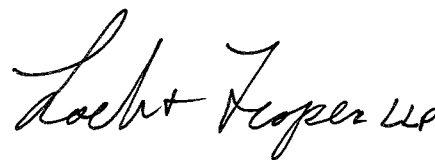
As part of obtaining reasonable assurance about whether Academy of the City Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 findings identified in our audit is described in the accompanying schedule of findings and questioned costs. AoC'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.



September 24, 2014

ACADEMY OF THE CITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Financial Statement Findings

2014-01 Collection and Receipt of Cash for school-related sales activities

Criteria

AoC's accounting manual states that all incoming cash received from parents and others for activities such as school lunches, after school dues, the purchase of uniforms for students, etc. should follow the following procedures:

The Director of Operations is designated to receive cash.

Cash is to be kept in a locked cash box, which is secured in a locked cabinet when not in the immediate possession of the Director of Operations.

- Pre-numbered cash receipts are to be filled in triplicate: one copy for payee, one for staff receiving cash and one for fiscal department.
- Cash is logged on a daily basis in a Cash Receipts Log. The log is totaled, printed and signed by the collector. The collector keeps a copy of the log for him/herself and places the original in the cash box.

Condition/Context

We noted that these procedures were not being followed. The receptionist was accepting cash receipts on behalf of the fiscal department. The cash was not secured in a locked cash box overnight, and the director of operations was not investigating missing sequences in the pre-numbered cash receipts.

Effect

As a result, approximately \$14,000 of cash receipts were misappropriated in 2014.

Cause

Management changed the procedures without proper authorization.

Recommendation

We recommend that the school follow their manual for all business practices. We also recommend that the school consider not accepting cash payments and revert to only accepting checks and credit card payments.

View of Responsible Officials and Planned Corrective Actions

See corrective action plan.



Corrective Action Plan

2014-001

Management agrees with the finding.

Fiscal year 2014 was the first year that the school began operating its afterschool program directly and thus received substantial payments from parents in the form of checks, credit card transactions and cash. Various control procedures were established by the organization relating to the handling of cash. However, these were not communicated sufficiently clearly to the staff and our follow up was poor, resulting in the loss.

Fortunately, the school has recovered \$15,814 by filing a claim under our insurance policy.

The Board has responded to the loss in a comprehensive way, including the institution of the following procedures relating to receiving and processing monies :

- 1) All cash and checks are removed daily from the front office except \$200 float. This is handled by the Principal, Assistant Principal, or Director of Operations. A sign off sheet for the morning and evening will be contained in the money box.
- 2) Cash/checks are placed in the safe at the end of the day by one of the above people (only staff who have the combination to the safe).
- 3) No cash is accepted for Afterschool (only credit card, check or money order).
- 4) Weekly deposits of all monies except organized by the bookkeeper or Director of Operations except the \$200 float.
- 5) Weekly deposits matched up with yellow receipts by the bookkeeper to account for every transaction and any discrepancies noted to Principal and Accountant.
- 6) Monthly check for all yellow and pink receipts to insure that all money is accounted for.
- 7) The After School Coordinator will only give monies collected to the Principal or Director of Operations.