

**ACADEMY OF THE CITY  
CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2013 AND 2012**

**ACADEMY OF THE CITY CHARTER SCHOOL**

**TABLE OF CONTENTS**

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

**Exhibit**

**A - Balance Sheet**

**B - Statement of Activities**

**C - Statement of Cash Flows**

**Notes to Financial Statements**

**Schedule**

**1 - Schedule of Functional Expenses**

**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 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, 2013 and 2012, and the related statements of activities, and cash flows for the year ended June 30, 2013 and from December 14, 2010 (inception) through June 30, 2012, 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, 2013 and 2012, and the changes in its net assets and its cash flows for the year ended June 30, 2013 and from December 14, 2010 (inception) through June 30, 2012 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, 2013 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.

*Loeb & Troper LLP*

September 24, 2013

## ACADEMY OF THE CITY CHARTER SCHOOL

EXHIBIT A

## BALANCE SHEET

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 19,334	\$ 55,514
Grants and contracts receivable	157,932	112,714
Security deposits	96,000	10,000
Prepaid expenses and other receivables	<u>47,727</u>	
Total current assets	320,993	178,228
Cash - deposits in escrow	50,000	
Fixed assets - net (Note 3)	<u>189,818</u>	<u>77,938</u>
Total assets	<u>\$ 560,811</u>	<u>\$ 256,166</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 122,314	\$ 38,895
Accrued salaries and related liabilities	194,690	126,743
Loan payable (Note 5)	3,125	7,335
Refundable advances	<u>14</u>	<u>18,328</u>
Total current liabilities	320,143	191,301
Loan payable (Note 5)		<u>3,290</u>
Total liabilities	320,143	194,591
Net assets (Exhibit B)		
Unrestricted	<u>240,668</u>	<u>61,575</u>
Total liabilities and net assets	<u>\$ 560,811</u>	<u>\$ 256,166</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

YEAR ENDED JUNE 30, 2013 AND  
FROM DECEMBER 14, 2010 (INCEPTION)  
THROUGH JUNE 30, 2012

	<u>2013</u>	<u>2012</u>
Operating revenues and other support		
State and local per-pupil operating revenues	\$ 2,142,097	\$ 1,381,752
Government grants and contracts	415,954	343,141
Auxiliary program revenues	7,962	
Contributions	24,791	115,326
In-kind contribution (Note 7)	220,000	397,614
	<u>2,810,804</u>	<u>2,237,833</u>
Total operating revenues		
	<u>2,810,804</u>	<u>2,237,833</u>
Expenses (Schedule 1)		
Program services		
Education	1,719,623	1,345,334
Special education	242,787	142,959
	<u>1,962,410</u>	<u>1,488,293</u>
Total program services		
	<u>1,962,410</u>	<u>1,488,293</u>
Supporting services		
Management and general	654,301	677,315
Fund raising	15,000	10,650
	<u>669,301</u>	<u>687,965</u>
Total supporting services		
	<u>669,301</u>	<u>687,965</u>
Total expenses	<u>2,631,711</u>	<u>2,176,258</u>
Change in unrestricted net assets (Exhibit C)	179,093	61,575
Net assets, unrestricted - beginning of period	<u>61,575</u>	<u>        </u>
Net assets, unrestricted - end of period (Exhibit A)	<u>\$ 240,668</u>	<u>\$ 61,575</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

YEAR ENDED JUNE 30, 2013 AND  
FROM DECEMBER 14, 2010 (INCEPTION)  
THROUGH JUNE 30, 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 179,093	\$ 61,575
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	29,855	18,327
Increase in assets		
Grants and contracts receivable	(45,218)	(112,714)
Security deposits	(86,000)	(10,000)
Prepaid expenses and other receivables	(47,727)	
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	83,419	38,895
Accrued salaries and related liabilities	67,947	126,743
Refundable advances	(18,314)	18,328
Net cash provided by operating activities	<u>163,055</u>	<u>141,154</u>
Cash flows from investing activities		
Fixed asset acquisitions	(141,735)	(96,265)
Cash - deposits in escrow	(50,000)	
Net cash used by investing activities	<u>(191,735)</u>	<u>(96,265)</u>
Cash flows from financing activities		
Proceeds from loans		15,000
Principal payments on loans	(7,500)	(4,375)
Net cash provided (used) by financing activities	<u>(7,500)</u>	<u>10,625</u>
Net change in cash	(36,180)	55,514
Cash - beginning of period	<u>55,514</u>	
Cash - end of period	<u>\$ 19,334</u>	<u>\$ 55,514</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, 2013 AND 2012

### 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 2013, AoC operated classes for 160 students in grades K-2.

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.

*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 following useful lives of assets.

*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.

-continued-

## ACADEMY OF THE CITY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*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.

*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.

*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, 2013, which is the date the financial statements were available to be issued.

## NOTE 3 - FIXED ASSETS

	<u>2013</u>	<u>2012</u>	<u>Useful Lives</u>
Furniture and fixtures	\$ 94,166	\$ 68,118	3-5 years
Equipment	35,787	28,147	3-5 years
Construction in progress	<u>108,047</u>	<u>          </u>	
	238,000	96,265	
Accumulated depreciation	<u>(48,182)</u>	<u>(18,327)</u>	
	<u>\$ 189,818</u>	<u>\$ 77,938</u>	

-continued-



## ACADEMY OF THE CITY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

**NOTE 4 - LEASE COMMITMENT**

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

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, 2013 are:

2014	\$ 517,312
2015	626,912
2016	740,896
2017	740,896
Thereafter	<u>22,225,249</u>
	<u>\$ 24,851,265</u>

**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 will mature on January 1, 2014.

Principal payments are as follows:

2014	\$ <u>3,125</u>
------	-----------------

**NOTE 6 - 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.

-continued-

## ACADEMY OF THE CITY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

## NOTE 7 - IN-KIND CONTRIBUTIONS

AoC received in-kind contributions as follows:

	<u>2013</u>	<u>2012*</u>
Rent	\$ 220,000	\$ 220,000
Legal fees	<u>                    </u>	<u>177,614</u>
Total	\$ <u>220,000</u>	\$ <u>397,614</u>

\* From December 14, 2010 (inception) through June 30, 2012

## 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, 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 \$150,000 in 2013 and \$84,500 in 2012.



## ACADEMY OF THE CITY CHARTER SCHOOL

## SCHEDULE 1

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	No. of Positions	Program Services			Supporting Services		
		Education	Special Education	Total	Management and General	Fund Raising	Total
Personnel service costs							
Administrative staff personnel	4	\$ 158,769	\$ 14,072	\$ 172,841	\$ 213,361	\$	\$ 386,202
Instructional personnel	8	812,475	133,957	946,432			946,432
Non-instructional personnel	1				50,000		50,000
Salaries		971,244	148,029	1,119,273	263,361		1,382,634
Payroll taxes and employee benefits							
Occupancy (Note 7)		218,565	34,346	252,911	59,325		312,236
Contracted services		200,591	31,521	232,112	54,446		286,558
Supplies and equipment		117,089	10,806	127,895	146,101	\$ 15,000	288,996
Repairs and maintenance		38,482	6,047	44,529	10,445		54,974
Professional fees (Note 7)		25,842	4,061	29,903	7,014		36,917
Classroom supplies and textbooks					85,536		85,536
Insurance		67,203	265	67,468			67,468
Student and staff recruitment		20,153	2,239	22,392	5,598		27,990
Telephone					9,288		9,288
Staff travel		5,211	819	6,030	1,415		7,445
Student field trips		2,094	329	2,423	568		2,991
Food services		6,438		6,438			6,438
Board and staff development		7,448		7,448			7,448
Depreciation		5,195	816	6,011	3,298		9,309
Miscellaneous expenses		21,495	2,389	23,884	5,971		29,855
		12,573	1,120	13,693	1,935		15,628
Total expenses (Exhibit B)		\$ 1,719,623	\$ 242,787	\$ 1,962,410	\$ 654,301	\$ 15,000	\$ 2,631,711

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, 2013 and 2012, and the related statements of activities, and cash flows for the year ended June 30, 2013 and from December 14, 2010 (inception) through June 30, 2012, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2013.

***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.

*Loeb & Troper LLP*

September 24, 2013