

New York City Charter School of the Arts

Financial Statements

June 30, 2022 and 2021

Independent Auditors' Report

Board of Trustees
New York City Charter School of the Arts

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of New York City Charter School of the Arts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York City Charter School of the Arts as of June 30, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of New York City Charter School of the Arts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about New York City Charter School of the Arts' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 New York City Charter School of the Arts' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about New York City Charter School of the Arts' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of New York City Charter School of the Arts'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 New York City Charter School of the Arts'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 New York City Charter School of the Arts's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 31, 2022

New York City Charter School of the Arts

Statements of Financial Position

	June 30,	
	2022	2021
ASSETS		
Current Assets		
Cash	\$ 1,311,876	\$ 1,715,498
Grants and contracts receivable	475,495	108,588
Prepaid expenses and other current assets	116,371	160,707
Total Current Assets	1,903,742	1,984,793
Property and equipment, net	527,025	596,738
Security deposit	589,560	589,560
Restricted cash	75,253	75,220
	\$ 3,095,580	\$ 3,246,311
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 143,500	\$ 104,751
Accrued payroll and payroll taxes	197,597	260,845
Deferred rent, current portion	40,613	79,086
Refundable advances	16,545	55,842
Total Current Liabilities	398,255	500,524
Loan payable	-	393,000
Paycheck Protection Program loan payable	-	698,263
Deferred rent	334,440	216,881
Total Liabilities	732,695	1,808,668
Net assets, without donor restrictions	2,362,885	1,437,643
	\$ 3,095,580	\$ 3,246,311

See notes to financial statements

New York City Charter School of the Arts

Statements of Activities

	Year Ended June 30,	
	2022	2021
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 3,891,385	\$ 4,244,540
Special education	1,040,507	958,076
Facilities	1,167,416	1,170,863
Federal grants	706,708	190,371
Federal E-Rate and IDEA	99,219	81,563
State grants	20,053	21,351
Total Operating Revenue	6,925,288	6,666,764
EXPENSES		
Program Services		
Regular education	3,748,048	3,960,554
Special education	2,070,926	1,884,869
Total Program Services	5,818,974	5,845,423
Supporting Services		
Management and general	864,071	439,216
Fundraising	32,277	44,372
Total Expenses	6,715,322	6,329,011
Surplus from Operations	209,966	337,753
SUPPORT AND OTHER REVENUE		
Gain on forgiveness of Paycheck Protection Program loan	698,263	-
Grants and contributions	10,203	69,355
Interest and other income	6,810	39
Total Support and Other Revenue	715,276	69,394
Change in Net Assets	925,242	407,147
NET ASSETS WITHOUT DONOR RESTRICTION		
Beginning of year	1,437,643	1,030,496
End of year	\$ 2,362,885	\$ 1,437,643

See notes to financial statements

New York City Charter School of the Arts

Statement of Functional Expenses
Year Ended June 30, 2022

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	11	\$ 566,258	\$ 107,224	\$ 673,482	\$ 374,439	\$ 17,099	\$ 1,065,020
Instructional personnel	31	1,250,803	935,263	2,186,066	-	-	2,186,066
Non-instructional personnel	<u>1</u>	<u>252</u>	<u>42</u>	<u>294</u>	<u>126</u>	<u>-</u>	<u>420</u>
Total Salaries and Staff	<u>43</u>	<u>1,817,313</u>	<u>1,042,529</u>	<u>2,859,842</u>	<u>374,565</u>	<u>17,099</u>	<u>3,251,506</u>
Fringe benefits and payroll taxes		339,398	194,701	534,099	69,954	3,193	607,246
Accounting and audit services		-	-	-	105,000	-	105,000
Legal service		2,027	1,163	3,190	418	19	3,627
Outside contracted services and consultants		222,878	102,437	325,315	76,970	1,138	403,423
Occupancy and rent		843,730	484,018	1,327,748	173,901	7,939	1,509,588
Repairs and maintenance		43,220	24,794	68,014	8,907	407	77,328
Insurance		27,919	16,016	43,935	5,755	263	49,953
Utilities		43,028	24,683	67,711	8,868	405	76,984
Supplies and materials		57,120	18,571	75,691	-	-	75,691
Staff development		21,719	7,041	28,760	-	-	28,760
Marketing and recruitment		36,132	19,142	55,274	6,137	280	61,691
Technology		26,228	15,046	41,274	5,406	247	46,927
Food service		118,553	38,430	156,983	-	-	156,983
Student services		11,576	3,752	15,328	-	-	15,328
Office expense		33,558	19,144	52,702	6,828	312	59,842
Depreciation and amortization		92,954	53,324	146,278	19,158	875	166,311
Other		<u>10,695</u>	<u>6,135</u>	<u>16,830</u>	<u>2,204</u>	<u>100</u>	<u>19,134</u>
Total Expenses		<u>\$ 3,748,048</u>	<u>\$ 2,070,926</u>	<u>\$ 5,818,974</u>	<u>\$ 864,071</u>	<u>\$ 32,277</u>	<u>\$ 6,715,322</u>

New York City Charter School of the Arts

Statement of Functional Expenses
Year Ended June 30, 2021

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

New York City Charter School of the Arts

Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 925,242	\$ 407,147
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	166,311	201,072
Deferred rent	79,086	116,440
Gain on forgiveness of Paycheck Protection Program loan	(698,263)	-
Changes in operating assets and liabilities		
Grants and contracts receivable	(366,907)	(51,769)
Prepaid expenses and other current assets	44,336	(95,901)
Security deposit	-	(96,560)
Accounts payable and accrued expenses	38,749	(9,341)
Accrued payroll and payroll taxes	(63,248)	74,312
Refundable advances	(39,297)	52,693
Net Cash from Operating Activities	86,009	598,093
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(96,598)	(30,235)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loan payable	(393,000)	-
Proceeds from loan payable	-	131,000
Net Cash from Financing Activities	(393,000)	131,000
Net Change in Cash and Restricted Cash	(403,589)	698,858
CASH AND RESTRICTED CASH		
Beginning of year	1,790,718	1,091,860
End of year	\$ 1,387,129	\$ 1,790,718
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 7,156	\$ 28,661

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

1. Organization and Tax Status

New York City Charter School of the Arts (the “School”) is a New York State, not-for-profit educational corporation that was incorporated on January 4, 2016 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter (the “Charter”) on January 4, 2016 valid for a term of five years and renewed and extended through July 31, 2026 by the Board of Regents of the University of the State of New York. The School’s mission is to inspire a diverse community of young people to engage with the arts as a pathway to rich and rigorous academic scholarship and a creative purposeful life. The School provided education to approximately 232 students in the sixth through eighth grades during the 2021-2022 academic year.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Net assets without donor restrictions - consist of resources available for the general support of the School’s operations. Net assets without donor restrictions may be used at the discretion of the School’s management and/or the Board of Trustees.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions as of June 30, 2022 and 2021.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

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

Restricted Cash

Under the provisions of its Charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

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

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,311,876	\$ 1,715,498
Restricted cash	<u>75,253</u>	<u>75,220</u>
	<u>\$ 1,387,129</u>	<u>\$ 1,790,718</u>

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$2,500 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Furniture and fixtures	7 years
Software	3 years
Computers and equipment	3 and 5 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2022 and 2021.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

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

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Deferred Rent

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statements of financial position.

Revenue and Support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current period activities are recorded as net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the School's ongoing services. Non-operating activities include revenue and support from gain on forgiveness of Paycheck Protection Program loan, non-governmental sources that include grants and contributions revenue, return on investments and other activities considered to be of more non-recurring nature.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred. Marketing and recruitment expense for the years ended June 30, 2022 and 2021 was \$61,691 and \$46,336.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

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

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2019.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 31, 2022.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, city entitlements and grants. The School expects to collect these receivables within one year. Management has assessed the need for an allowance and has determined that such allowance is not necessary.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Furniture and fixtures	\$ 305,736	\$ 305,736
Software	15,887	15,888
Computers and equipment	565,799	477,050
Leasehold improvements	<u>464,522</u>	<u>456,672</u>
	1,351,944	1,255,346
Accumulated depreciation and amortization	<u>(824,919)</u>	<u>(658,608)</u>
	<u>\$ 527,025</u>	<u>\$ 596,738</u>

5. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,311,876	\$ 1,715,498
Grants and contracts receivable	<u>475,495</u>	<u>108,588</u>
	<u>\$ 1,787,371</u>	<u>\$ 1,824,086</u>

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

5. Liquidity and Availability of Financial Assets (continued)

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is held in liquid instruments until it is required for operational use. The School will continue to rely on funding received from the New York City Department of Education to cover future operating costs (see Note 10).

6. Loan Payable

On June 28, 2018, the School entered into a term loan agreement with The Contact Fund, LLC, The New York Pooled PRI Fund, LLC, and Civic Charter Lender, Inc. ("Outside Lenders"), and members of the School's board of trustees ("Board Lenders"), (collectively the "Lenders"). Under terms of the agreement, the Lenders shall make loans to the School up to an aggregate amount of \$589,600. The proceeds of the loans are to be used solely for payment of the security deposit installments required under the sublease with NYFA 26 Broadway, LLC (see Note 11). The loans was made in three installments of up to \$196,500 each, with each disbursement coinciding with a security deposit funding under the sublease. The loan was due and payable, including accrued interest, in three equal installments of \$196,500 starting in July 15, 2022 and bears interest at 5.75% per annum. At June 30, 2022 and 2021, the School has an outstanding balances of \$0 and \$393,000 as the balance of the loan was paid in full in October 2021.

7. Paycheck Protection Program Loan Payable

On May 6, 2020, the School received a loan under the Paycheck Protection Program authorized by the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in the amount of \$698,263. In accordance with the requirements under the CARES Act, the loan may be forgiven based on the associated spending in accordance with regulations under the CARES Act. For amounts under the loan that are not forgiven, these amounts are due 2 years from the date of the loan and interest would accrue on the unforgiven loan balance at 1% per year. The loan forgiveness will be recognized at the time that the financial institution that issued the loan has reviewed and approved the associated spending and determined the forgivable portion. Management believes that most or all of the loan will be forgiven based on the current understanding of the legislative guidance.

On August 10, 2021, the loan was forgiven in full by the U.S. Small Business Administration and is recognized as a gain on forgiveness of Paycheck Protection Program loan in the accompanying statements of activities, as per provisions of Accounting Standards Codification 470, Debt.

8. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 2% of the participant's annual compensation. Employer match for the years ended June 30, 2022 and 2021 amounted to \$57,509 and \$20,297.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

9. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and restricted cash with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2022 and 2021, approximately \$890,000 and \$1,270,000 of cash was maintained with two institutions in excess of FDIC limits.

10. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2022 and 2021, the School received approximately 80% and 95% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School’s finances could be materially adversely affected.

11. Commitments

On March 8, 2018, the School signed a sublease agreement with NYFA 26 Broadway, LLC for facility space under a non-cancelable lease that commenced on September 1, 2018 and expiring June 30, 2028. Under the terms of the sublease, the School is required to make security deposits in the amount of \$196,560 per year beginning in fiscal 2018 for a total of \$589,680 by fiscal year 2020. The School is responsible for utilities, custodial services, maintenance, school safety services, HVAC, elevator services, and any additional services provided by the landlord to the School. Beginning in the 2019-2020 academic year, the School will not occupy the premises or be responsible for rent for a five week period from July to August each year (the “Summer Term”). The School has the option to occupy the subleased space during the Summer Term at an additional cost. On May 1, 2018 the sublease was amended to require the School to contribute \$125,000 to the renovation of the elevator. This amount will be paid by the School in twelve equal monthly installments that commenced on September 1, 2018 and is treated as additional rent.

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

2023	\$ 1,320,920
2024	1,360,547
2025	1,401,364
2026	1,443,405
2027	1,486,707
Thereafter	<u>1,531,308</u>
	<u>\$ 8,544,251</u>

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2022 and 2021

12. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

13. Risks and Uncertainties

The School's operations and financial performance may be affected by the COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

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

Independent Auditors' Report

**Board of Trustees
New York City Charter School of the Arts**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New York City Charter School of the Arts (the "School") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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 31, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 31, 2022