

ACADEMY OF THE CITY CHARTER SCHOOL

QUEENS, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2023

(With Comparative Totals For 2022)



BUSINESS
ADVISORS
AND CPAS

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BUSINESS
ADVISORS
AND CPAS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Academy of the City Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Academy of the City Charter School, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Academy of the City Charter School as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Academy of the City Charter School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note A to the financial statements, during the year ended June 30, 2023, the entity adopted new accounting guidance related to accounting for leases. Our opinion is not modified with respect to this matter.

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 Academy of the City Charter School's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 Academy of the City Charter School's 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 Academy of the City Charter School's 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.

Report on Summarized Comparative Information

We have previously audited Academy of the City Charter School's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023 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, 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.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 17, 2023

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

(With Comparative Totals For 2022)

<u>ASSETS</u>	June 30,	
	<u>2023</u>	<u>2022</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 4,079,336	\$ 3,606,438
Grants and other receivables	327,172	691,649
Prepaid expenses	<u>111,506</u>	<u>10,932</u>
TOTAL CURRENT ASSETS	4,518,014	4,309,019
<u>PROPERTY AND EQUIPMENT, net</u>	27,287,516	28,373,119
<u>OTHER ASSETS</u>		
Due from Friends of Academy of the City, Inc.	244,345	222,778
Security deposit	276,000	276,000
Cash in escrow	77,803	75,450
Right-of-use-assets - operating	<u>10,725,079</u>	<u>-</u>
	<u>11,323,227</u>	<u>574,228</u>
TOTAL ASSETS	<u>\$ 43,128,757</u>	<u>\$ 33,256,366</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 458,583	\$ 260,757
Accrued payroll and benefits	1,431,665	1,224,577
Deferred revenue	226,688	138,600
Curent portion of lease liability - finance	325,415	211,910
Curent portion of lease liabilities - operating	<u>782,183</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	3,224,534	1,835,844
<u>OTHER LIABILITIES</u>		
Capital lease payable	-	27,991,702
Deferred rent	-	1,267,685
Long-term lease liability - finance	27,788,752	-
Long-term lease liabilities - operating	<u>11,287,103</u>	<u>-</u>
TOTAL LIABILITIES	42,300,389	31,095,231
<u>NET ASSETS</u>		
Without donor restrictions	<u>828,368</u>	<u>2,161,135</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,128,757</u>	<u>\$ 33,256,366</u>

The accompanying notes are an integral part of the financial statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2023
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	\$ 12,937,965	\$ 12,027,376
Students with disabilities	537,447	489,369
Grants and contracts		
State and local	53,766	-
Federal - Title and IDEA	219,321	183,902
Federal - Other	214,333	772,493
Food service/Child nutrition program	-	94,467
NYCDOE rental assistance	<u>2,121,653</u>	<u>1,923,024</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	16,084,485	15,490,631
Expenses:		
Program services:		
Regular education	12,936,124	11,749,617
Special education	<u>2,585,902</u>	<u>2,305,179</u>
TOTAL PROGRAM SERVICES	15,522,026	14,054,796
Management and general	2,363,214	3,015,548
Fundraising and special events	<u>100</u>	<u>3,513</u>
TOTAL OPERATING EXPENSES	<u>17,885,340</u>	<u>17,073,857</u>
DEFICIT FROM SCHOOL OPERATIONS	(1,800,855)	(1,583,226)
Support and other revenue:		
Contributions	403,923	114,755
Interest income	<u>64,165</u>	<u>11,656</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>468,088</u>	<u>126,411</u>
CHANGE IN NET ASSETS	(1,332,767)	(1,456,815)
Net assets at beginning of year	<u>2,161,135</u>	<u>3,617,950</u>
NET ASSETS AT END OF YEAR	<u>\$ 828,368</u>	<u>\$ 2,161,135</u>

The accompanying notes are an integral part of the financial statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023
(With Comparative Totals For 2022)

		Year ended June 30,							
		2023							2022
		Program Services			Supporting Services				
	Number of positions	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-Total	Total	Total
Personnel services costs:									
Administrative staff personnel	18	\$ 1,186,722	\$ 170,839	\$ 1,357,561	\$ 963,187	\$ -	\$ 963,187	\$ 2,320,748	\$ 2,058,345
Instructional personnel	73	5,048,177	1,117,468	6,165,645	-	-	-	6,165,645	5,616,826
Non-instructional personnel	8	122,660	15,553	138,213	24,312	-	24,312	162,525	168,690
TOTAL SALARIES AND STAFF	99	6,357,559	1,303,860	7,661,419	987,499	-	987,499	8,648,918	7,843,861
Fringe benefits & payroll taxes		1,399,912	289,391	1,689,303	221,559	-	221,559	1,910,862	1,732,267
Retirement		157,822	32,714	190,536	28,596	-	28,596	219,132	229,404
Legal Service		-	-	-	93,741	-	93,741	93,741	73,060
Accounting / audit services		-	-	-	208,609	-	208,609	208,609	181,485
Other purchased / professional / consulting services		796,880	122,955	919,835	136,848	-	136,848	1,056,683	1,027,884
Building and land rent / lease / facility finance interest		1,856,957	384,914	2,241,871	336,471	-	336,471	2,578,342	2,635,809
Repairs and maintenance		322,108	66,767	388,875	58,364	-	58,364	447,239	459,737
Insurance		87,639	18,166	105,805	15,880	-	15,880	121,685	122,491
Utilities		113,079	23,439	136,518	20,489	-	20,489	157,007	54,547
Supplies / materials		198,076	23,536	221,612	-	-	-	221,612	347,297
Office expense		105,608	21,891	127,499	19,136	-	19,136	146,635	149,666
Staff development		84,827	17,583	102,410	15,370	-	15,370	117,780	107,146
Marketing / recruitment		97,981	20,310	118,291	17,753	-	17,753	136,044	133,910
Technology		174,671	36,206	210,877	31,649	-	31,649	242,526	306,969
Food service		77,086	9,159	86,245	-	-	-	86,245	225,915
Student services		153,990	18,297	172,287	-	100	100	172,387	125,375
Depreciation and amortization		932,875	193,368	1,126,243	169,032	-	169,032	1,295,275	1,297,013
Equipment and furnishings		10,354	1,543	11,897	642	-	642	12,539	18,028
Other		8,700	1,803	10,503	1,576	-	1,576	12,079	1,993
		\$ 12,936,124	\$ 2,585,902	\$ 15,522,026	\$ 2,363,214	\$ 100	\$ 2,363,314	\$ 17,885,340	\$ 17,073,857

The accompanying notes are an integral part of the financial statements.

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (1,332,767)	\$ (1,456,815)
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	1,295,275	1,297,013
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	364,477	(654,559)
Prepaid expenses	(100,574)	93,572
Accounts payable and accrued expenses	197,826	62,516
Accrued payroll and benefits	207,088	338,027
Deferred revenue	88,088	138,600
Lease liabilities, net of right-of-use assets	1,344,207	-
Deferred rent	<u>(1,267,685)</u>	<u>76,522</u>
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	795,935	(105,124)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Increase in due from Friends of Academy of the City, Inc.	(21,567)	(45,398)
Purchases of property and equipment	(86,280)	(416,017)
Net redemptions of certificates of deposit	<u>-</u>	<u>856,000</u>
NET CASH (USED FOR) PROVIDED FROM INVESTING ACTIVITIES	(107,847)	394,585
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Payments on capital lease payable	<u>(212,837)</u>	<u>(195,766)</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(212,837)</u>	<u>(195,766)</u>
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	475,251	93,695
Cash, cash equivalents, and restricted cash at beginning of year	<u>3,681,888</u>	<u>3,588,193</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 4,157,139</u>	<u>\$ 3,681,888</u>

ACADEMY OF THE CITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2023
(With Comparative Totals For 2022)

	June 30,	
	<u>2023</u>	<u>2022</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Reconciliation of cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash and cash equivalents	\$ 4,079,336	\$ 3,606,438
Cash in escrow	<u>77,803</u>	<u>75,450</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 4,157,139</u>	<u>\$ 3,681,888</u>
Cash paid for interest	<u>\$ 1,352,248</u>	<u>\$ 1,486,301</u>

The accompanying notes are an integral part of the financial statements.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Academy of the City Charter School (the “Charter School”) 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 the Charter School a charter valid for a term of 5 years and renewable upon expiration. The school was granted a charter for grades K-5. On January 14, 2019, the Charter School’s charter was renewed through June 30, 2024 and expanded to include grades 6-8. During the year ended June 30, 2020, the Charter School opened a middle school, initially serving 6th grade. The Charter School is currently in the process of renewing the charter granted by the Board of Regents of the University of the State of New York. The renewal process includes review by the SUNY Charter Schools Institute of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. Upon review of the application and results, SUNY CSI will determine if the charter should be renewed, and if so, for how long. Successful charter renewals can range from one to five years. At this time, management of the Charter School expects the charter to be renewed.

The Charter School 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.

Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Charter School, the accounts of the Charter School are maintained in accordance with the principles of accounting for not-for-profit organizations. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by Academy of the City Charter School.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had no assets with donor restrictions at June 30, 2023 and 2022.

Revenue recognition

Revenue from Exchange Transactions: The Charter School recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

The Charter School records substantially all revenues over time as follows:

Public school district revenue

The Charter School recognizes revenue as educational programming is provided to students throughout the year. The Charter School earns public school district revenue based on the approved per pupil tuition rate of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the Charter School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the Charter School and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the Charter School to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

Rental assistance

Facilities rental assistance funding is provided by the New York City Dept of Education (NYCDOE) to qualifying charter schools located in the five boroughs of NYC. In order to receive rental assistance funding, a charter school must have commenced instruction or added grade levels in the 2014-15 school year or thereafter and go through a space request process with the NYCDOE. If NYCDOE is not able to provide adequate space, the charter school can become eligible for rental assistance. Rental assistance is calculated as the lesser of 30% of the per-pupil tuition rate for NYC times the number of students enrolled, or actual total rental costs. As rental assistance is based on the number of students enrolled, revenue is recognized throughout the year as educational programming is provided to students.

The following table summarizes contract balances at their respective statement of financial position dates:

		June 30,	
	2023	2022	2021
Grants and other receivables	\$ -	\$ 17,552	\$ 37,090

Contributions

The Charter School recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions and unconditional promises to give are recorded as revenue in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as revenue without donor restrictions.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Grant revenue

Some of the Charter School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Charter School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying statement of financial position and amounted to \$226,688 and \$138,600 at June 30, 2023 and 2022, respectively. The Charter School received cost-reimbursement grants of approximately \$192,900 and \$406,000 that have not been recognized as of June 30, 2023 and 2022, respectively, because qualifying expenditures had not yet been incurred.

Cash and cash equivalents

Cash balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. The Charter School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$77,803 and \$75,450 at June 30, 2023 and 2022, respectively. The escrow funds are restricted to fund legal and other costs related to the dissolution of the Charter School, should this become necessary.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2023 or 2022.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which are as follows:

Furniture and fixtures	–	5 to 7 years
Equipment	–	3 to 5 years
Leasehold improvements	–	20 to 27 years

Major renewals and betterments are capitalized, while repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

Deferred rent

Operating lease expense is straight-lined over the term of the lease. In accordance with ASC 840, deferred rent has been recorded for the difference between the fixed payment and the straight-line rent expense through June 30, 2022. As further described below, the deferred rent was eliminated upon adoption of ASC 842, effective July 1, 2022.

Leases

The Charter School leases its school facilities and various office equipment and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the accompanying statement of financial position. Finance leases are included in property and equipment as ROU assets – finance, current liabilities and other long-term liabilities on the accompanying statement of financial position.

ROU assets represent the Charter School's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Charter School uses a risk free interest rate based on the information available at commencement date in determining the present value of lease payments. The lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Charter School will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term, and for finance leases, as amortization expense and interest expense.

The Charter School's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Charter School considers factors such as if the Charter School has obtained substantially all of the rights to the underlying asset through exclusivity, if the Charter School can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2020 through June 30, 2023 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. In addition, the Charter School received transportation services, food services, and a school nurse which were provided for the students by the local district. The Charter School was unable to determine a value for these services.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions during the years ended June 30, 2023 and 2022.

Marketing and recruiting costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs were \$136,044 and \$133,910 for the years ended June 30, 2023 and 2022, respectively.

Use of estimates in the preparation of financial statements

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

Comparatives for year ended June 30, 2022

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Adoption of new accounting standard - leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Charter School adopted ASC 842 with the date of initial application of July 1, 2022.

The Charter School recognized and measured leases existing at July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

As part of the adoption of ASC 842, the Charter School elected practical expedients to account for the existing capital and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard; (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance; or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Charter School recognized on July 1, 2022 operating lease liabilities of \$12,704,896, which represents the present value of the remaining operating lease payments of \$15,336,216 discounted using risk-free rates ranging from 2.84% to 2.88%, and right-of-use assets of \$11,437,211, adjusted for deferred rent of \$1,267,685.

As a result of the adoption of the new lease accounting guidance, the Charter School recognized on July 1, 2022 a finance lease liability of \$28,327,004, which represents the present value of the remaining finance lease payments of \$53,972,493 discounted using the risk-free rate of 5.25%, and the right-of-use asset of \$25,705,478, adjusted for preexisting differences of \$2,621,526 between the carrying amount of the capital lease asset and capital lease obligation as of June 30, 2022.

The standard had a material impact on the accompanying statement of financial position, but did not have an impact on the statement of activities, nor statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

New accounting pronouncement – credit losses

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which requires entities to use a new impairment model referred to as the current expected credit losses (CECL) model rather than incurred losses. The new standard affects accounting for loans, accounts (trade) receivable, held-to-maturity debt securities, and other financial assets included in the scope. For non-public entities, the new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through November 17, 2023, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter School's main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of education and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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, comprise the following at June 30, 2023 and 2022:

	June 30,	
	2023	2022
Cash and cash equivalents	\$ 4,079,336	\$ 3,606,438
Grants and other receivables	327,172	691,649
Total financial assets available to management for general expenditures within one year	<u>\$ 4,406,508</u>	<u>\$ 4,298,087</u>

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	<u>2023</u>	<u>2022</u>
Building under right-of-use asset - finance	\$ 24,716,806	\$ 27,068,917
Furniture and fixtures	336,134	336,134
Equipment	1,006,612	959,630
Leasehold improvements	<u>2,970,817</u>	<u>2,931,519</u>
	29,030,369	31,296,200
Less accumulated depreciation and amortization	<u>(1,742,853)</u>	<u>(2,923,081)</u>
	<u>\$ 27,287,516</u>	<u>\$ 28,373,119</u>

NOTE D: OPERATING AND FINANCE LEASES

Operating leases

The Charter School entered into two leases with the Roman Catholic Church of Corpus Christi for a location in Woodside, NY and the related parking lot. The leases expire on June 30, 2035. In connection with these leases, the Charter School is required to maintain a security deposit with the landlord in the amount of \$276,000.

In addition to the above leases, the Charter School also rents various office equipment. Total rent expense for the year ended June 30, 2022 was \$1,149,508.

Finance lease

On February 1, 2019, the Charter School entered into a lease with Friends of Academy of the City, Inc. ("Friends"), an unrelated entity, for the middle school facility. The lease will expire on June 30, 2048. In connection with this lease, the Charter School guarantees the obligations of Friends to their landlord. The Charter School's obligation to Friends is greater than the amount due by Friends to their landlord due to additional improvements and services provided by Friends under the terms of the lease with the Charter School. Interest expense recorded for the year ended June 30, 2022 totaled approximately \$1,486,300.

In connection with the space to be used for the middle school site, Friends of Academy of the City, Inc. entered into a financing agreement with an unrelated party. As part of the financing agreement between Friends of Academy of the City, Inc, the Charter School is required to comply with certain covenants, of which the school was in compliance at June 30, 2023.

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE D: OPERATING AND FINANCE LEASES, Cont'd

Operating and finance lease summaries

A summary of lease right-of-use assets and liabilities at June 30, 2023 are as follows:

<u>Statement of Financial Position Classification</u>		
<u>Assets</u>		
Finance lease	Property and equipment	\$ 24,716,806
Operating leases	Other assets	<u>10,725,079</u>
		<u>\$ 35,441,885</u>
 <u>Liabilities</u>		
Current		
Finance lease	Current liabilities	\$ 325,415
Operating leases	Current liabilities	782,183
Non-current		
Finance lease	Other liabilities	\$ 27,788,752
Operating leases	Other liabilities	<u>11,287,103</u>
		<u>\$ 40,183,453</u>

The components of lease expense at June 30, 2023 were as follows:

Finance lease cost:		
Amortization of right-of-use assets		\$ 988,672
Interest on lease liabilities		<u>1,474,712</u>
	Total finance lease costs	2,463,384
Operating lease cost		<u>1,090,553</u>
	Total lease cost	<u>\$ 3,553,937</u>

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE D: OPERATING AND FINANCE LEASES, Cont'd

As of June 30, 2023, minimum payments due for lease liabilities for each of the five succeeding fiscal years and thereafter are as follows:

Year ending June 30,	Finance leases	Operating leases	Total
2024	\$ 1,785,839	\$ 1,116,946	\$ 2,902,785
2025	1,791,542	1,113,656	2,905,198
2026	1,797,359	1,110,251	2,907,610
2027	1,803,292	1,105,484	2,908,776
2028	1,809,344	1,105,484	2,914,828
Thereafter	<u>43,297,569</u>	<u>8,794,880</u>	<u>52,092,449</u>
Total lease payments	52,284,945	14,346,701	66,631,646
Less: Interest	<u>(24,170,778)</u>	<u>(2,277,415)</u>	<u>(26,448,193)</u>
Present value of lease liabilities	<u>\$ 28,114,167</u>	<u>\$ 12,069,286</u>	<u>\$ 40,183,453</u>

Supplemental information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows paid for finance lease	\$ 1,352,248
Financing cash flows paid for finance lease	\$ 335,300
Operating cash flows paid for operating leases	\$ 1,013,350

Right-of-use assets obtained in exchange for new lease liabilities
(non-cash):

Finance lease	\$ 28,327,004
Operating leases	\$ 12,727,441

Weighted-average remaining lease term:

Finance lease	25.00 years
Operating leases	11.98 years

Weighted-average discount rate:

Finance lease	5.25%
Operating leases	2.88%

ACADEMY OF THE CITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE E: RETIREMENT PLAN

The Charter School has a defined contribution retirement plan which covers substantially all full-time employees. For the years ended June 30, 2023 and 2022, the Charter School contributed 4 percent of the employee's contribution to the plan up to the maximum amount allowed. Retirement plan expense under this Plan for the years ended June 30, 2023 and 2022 was \$219,132 and \$229,404, respectively.

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such 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.

NOTE G: CONCENTRATIONS

At June 30, 2023 and 2022, approximately 100% and 97%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2023 and 2022, 84% and 81%, respectively, of total revenue, gains and other support came from per-pupil funding provided by New York City Department of Education. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE H: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function (including salaries, benefits, purchased services, occupancy costs, and depreciation) are allocated on the basis of estimates of time, effort and usage.

NOTE I: FINANCIAL IMPACT OF COVID-19 OUTBREAK

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Charter School has recognized \$193,677 and \$685,518 of revenue relative to ESSER grants during the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023, the Charter School has approximately \$192,900 of ESSER grants still available through September 2024.

ACADEMY OF THE CITY CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S 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*

Board of Trustees
Academy of the City Charter School

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Academy of the City Charter School, which comprise the statement of financial position as of June 30, 2023 and the related statements of activities and changes in net assets, 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 November 17, 2023.

Report on 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) as a basis for designing 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 were not identified.

Report on 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 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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
November 17, 2023