

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

Financial Statements

June 30, 2023 and 2022

## **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, 2023 and 2022 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, 2023 and 2022, 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 opinion.

#### ***Change in Accounting Policy***

As discussed in Note 2 to the financial statements, New York City Charter School of the Arts adopted Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, which resulted in the recognition of a right of use asset and related operating lease liability effective July 1, 2022. Our opinion is not modified with respect to that 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 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 11, 2023, on our consideration of New York City Charter School of the Arts' 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' 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' internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 11, 2023

## New York City Charter School of the Arts

### Statements of Financial Position

	June 30,	
	2023	2022
<b>ASSETS</b>		
Current Assets		
Cash	\$ 1,032,779	\$ 1,311,876
Grants and contracts receivable	507,354	475,495
Prepaid expenses and other current assets	67,726	116,371
Total Current Assets	1,607,859	1,903,742
Property and equipment, net	384,936	527,025
Right of use asset - operating lease, net	6,337,853	-
Security deposit	589,560	589,560
Restricted cash	75,722	75,253
	\$ 8,995,930	\$ 3,095,580
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 139,936	\$ 143,500
Accrued payroll and payroll taxes	213,994	197,597
Deferred rent	-	40,613
Operating lease liability	1,190,361	-
Refundable advances	42,073	16,545
Total Current Liabilities	1,586,364	398,255
Operating lease liability, less current portion	5,563,662	-
Deferred rent, less current portion	-	334,440
Total Liabilities	7,150,026	732,695
Net assets, without donor restrictions	1,845,904	2,362,885
	\$ 8,995,930	\$ 3,095,580

See notes to financial statements

## New York City Charter School of the Arts

### Statements of Activities

	Year Ended June 30,	
	2023	2022
<b>OPERATING REVENUE</b>		
State and local per pupil operating revenue		
General education	\$ 3,423,363	\$ 3,891,385
Special education	945,386	1,040,507
Facilities	1,025,130	1,167,416
Federal grants	465,597	706,708
Federal E-Rate and IDEA	107,037	99,219
State grants	12,875	20,053
Total Operating Revenue	5,979,388	6,925,288
<b>EXPENSES</b>		
Program Services		
Regular education	3,753,211	3,748,048
Special education	2,143,829	2,070,926
Total Program Services	5,897,040	5,818,974
Supporting Services		
Management and general	627,089	864,071
Fundraising	36,967	32,277
Total Expenses	6,561,096	6,715,322
(Deficit) Surplus from Operations	(581,708)	209,966
<b>SUPPORT AND OTHER REVENUE</b>		
Grants and contributions	64,235	10,203
Interest and other income	492	6,810
Gain on forgiveness of Paycheck Protection Program loan	-	698,263
Total Support and Other Revenue	64,727	715,276
Change in Net Assets	(516,981)	925,242
<b>NET ASSETS, WITHOUT DONOR RESTRICTION</b>		
Beginning of year	2,362,885	1,437,643
End of year	\$ 1,845,904	\$ 2,362,885

See notes to financial statements

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

Statement of Functional Expenses  
Year Ended June 30, 2023

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	11	\$ 520,399	\$ 84,887	\$ 605,286	\$ 215,314	\$ 20,674	\$ 841,274
Instructional personnel	31	1,412,759	1,054,430	2,467,189	-	-	2,467,189
Non-instructional personnel	<u>1</u>	<u>34,000</u>	<u>5,667</u>	<u>39,667</u>	<u>17,000</u>	<u>-</u>	<u>56,667</u>
Total Personnel Service Costs	<u>43</u>	<u>1,967,158</u>	<u>1,144,984</u>	<u>3,112,142</u>	<u>232,314</u>	<u>20,674</u>	<u>3,365,130</u>
Fringe benefits and payroll taxes		361,989	210,696	572,685	42,749	3,804	619,238
Accounting and audit services		-	-	-	114,000	-	114,000
Legal service		3,407	1,983	5,390	402	36	5,828
Outside contracted services and consultants		189,575	96,308	285,883	68,062	1,083	355,028
Occupancy and rent		816,609	475,307	1,291,916	96,438	8,582	1,396,936
Repairs and maintenance		25,005	14,554	39,559	2,953	263	42,775
Insurance		34,318	19,975	54,293	4,052	361	58,706
Utilities		46,856	27,272	74,128	5,535	492	80,155
Supplies and materials		69,687	28,761	98,448	-	-	98,448
Staff development		28,026	11,053	39,079	-	-	39,079
Marketing and recruitment		27,505	10,869	38,374	16	-	38,390
Technology		21,602	12,573	34,175	2,551	227	36,953
Food service		9,971	3,932	13,903	-	-	13,903
Student services		11,917	4,700	16,617	-	-	16,617
Office expense		42,519	24,362	66,881	4,778	425	72,084
Depreciation and amortization		93,122	54,202	147,324	10,997	979	159,300
Bad debt expense		-	-	-	41,774	-	41,774
Other		<u>3,945</u>	<u>2,298</u>	<u>6,243</u>	<u>468</u>	<u>41</u>	<u>6,752</u>
Total Expenses		<u>\$ 3,753,211</u>	<u>\$ 2,143,829</u>	<u>\$ 5,897,040</u>	<u>\$ 627,089</u>	<u>\$ 36,967</u>	<u>\$ 6,561,096</u>

**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 Personnel Service Costs	<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**

Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (516,981)	\$ 925,242
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	159,300	166,311
Amortization of right of use asset - operating lease	1,158,196	-
Bad debt expense	41,774	-
Deferred rent	-	79,086
Gain on forgiveness of Paycheck Protection Program loan	-	(698,263)
Changes in operating assets and liabilities		
Grants and contracts receivable	(73,633)	(366,907)
Prepaid expenses and other current assets	48,645	44,336
Accounts payable and accrued expenses	(3,564)	38,749
Accrued payroll and payroll taxes	16,397	(63,248)
Operating lease liability	(1,117,079)	-
Refundable advances	25,528	(39,297)
Net Cash from Operating Activities	(261,417)	86,009
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchases of property and equipment	(17,211)	(96,598)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Repayment of loan payable	-	(393,000)
Net Change in Cash and Restricted Cash	(278,628)	(403,589)
<b>CASH AND RESTRICTED CASH</b>		
Beginning of year	1,387,129	1,790,718
End of year	\$ 1,108,501	\$ 1,387,129
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for amounts included in the measurement of lease liability	\$ 1,327,363	\$ -
Cash paid during the year for interest	-	7,156

See notes to financial statements

# New York City Charter School of the Arts

Notes to Financial Statements  
June 30, 2023 and 2022

## 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 has been 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 194 students in the sixth through eighth grades during the 2022-2023 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.

### ***Adoption of New Accounting Pronouncement***

#### *Leases (Topic 842)*

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, which requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset.

The School adopted the requirements of the new standard effective July 1, 2022, using the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. The School adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment.

## New York City Charter School of the Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 2. Summary of Significant Accounting Policies

#### ***Adoption of New Accounting Pronouncement (continued)***

##### *Leases (Topic 842) (continued)*

Accordingly, the School will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred. As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the School recognized a lease liability of \$7,871,102 that represents the present value of the operating lease payments of \$8,585,930, discounted with a risk-free interest rate using the treasury bond rate for 5 years of 3.35%, and a right of use (“ROU”) asset of \$7,496,049, adjusted for accrued rent of \$375,053. The standard did not materially impact the statements of activities and cash flows.

#### ***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 at June 30, 2023 and 2022.

#### ***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 at June 30:

	<u>2023</u>	<u>2022</u>
Cash	\$ 1,032,779	\$ 1,311,876
Restricted cash	<u>75,722</u>	<u>75,253</u>
	<u>\$ 1,108,501</u>	<u>\$ 1,387,129</u>

## New York City Charter School of the Arts

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***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, 2023 and 2022.

#### ***Leases***

The School accounts for leases under Topic 842. The School determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and operating lease liabilities on the accompanying statement of financial position. The School made the short-term lease election for leases with an initial term of less than 12 months. ROU assets represent the right to use underlying assets for the lease terms and lease liabilities represent the obligation to make lease payments arising from the leases. Operating lease ROU assets and liabilities are recognized at the lease commencement dates based on the present value of lease payments over the lease terms. When leases do not provide an implicit borrowing rate, the School uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU assets 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 School will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease terms. The School's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The School has lease agreements with lease and non-lease components, which are generally accounted for separately. The School's lease agreements do not contain any variable lease components. The School applies the short-term lease exemption to all of its classes of underlying assets

#### ***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.

## **New York City Charter School of the Arts**

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***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, interest and other income, and other activities considered to be of a 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, 2023 and 2022 was \$38,390 and \$61,691.

#### ***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 such as personnel service costs, fringe benefits and payroll taxes, outside contracted services and consultants, and occupancy and rent 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.

#### ***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, 2020.

## New York City Charter School of the Arts

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***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 11, 2023.

### 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:

	2023	2022
Furniture and fixtures	\$ 305,736	\$ 305,736
Software	15,888	15,887
Computers and equipment	583,009	565,799
Leasehold improvements	<u>464,522</u>	<u>464,522</u>
	1,369,155	1,351,944
Accumulated depreciation and amortization	<u>(984,219)</u>	<u>(824,919)</u>
	<u>\$ 384,936</u>	<u>\$ 527,025</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:

	2023	2022
Cash	\$ 1,032,779	\$ 1,311,876
Grants and contracts receivable	<u>507,354</u>	<u>475,495</u>
	<u>\$ 1,540,133</u>	<u>\$ 1,787,371</u>

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 9).

## **New York City Charter School of the Arts**

Notes to Financial Statements  
June 30, 2023 and 2022

### **6. 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. 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.

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 fiscal year 2022 statements of activities, as per provisions of Accounting Standards Codification 470, *Debt*.

### **7. 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, 2023 and 2022 amounted to \$69,365 and \$57,509.

### **8. 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, 2023 and 2022, approximately \$620,000 and \$890,000 of cash was maintained with two institutions in excess of FDIC limits.

### **9. 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, 2023 and 2022, the School received approximately 89% and 80% 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.

### **10. 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 on June 30, 2028. Under the terms of the sublease, the School paid a security deposits in the amount of \$589,560. 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.

## New York City Charter School of the Arts

Notes to Financial Statements  
June 30, 2023 and 2022

### 10. Commitments (*continued*)

ROU assets consist of the following at June 30, 2023:

ROU asset - operating lease	\$	7,496,049
Less: Accumulated amortization		<u>(1,158,196)</u>
	\$	<u>6,337,853</u>

Weighted average remaining lease term	5 years
Weighted average discount rate	2.90%

The future minimum lease payments under this lease is as follows for the years ending June 30:

2024	\$	1,367,184
2025		1,408,200
2026		1,450,446
2027		1,493,959
2028		<u>1,538,778</u>
Total minimum lease payments		7,258,567
Present value discount		<u>(504,544)</u>
Present value of operating lease liability		6,754,023
Current portion		<u>(1,190,361)</u>
Operating lease liability, less current portion	\$	<u>5,563,662</u>

Rent expense for the years ended June 30, 2023 and 2022 amounted to \$1,311,541 and \$1,328,384.

### 11. 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.

\* \* \* \* \*



**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, 2023, 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 11, 2023.

**Report on 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 were not identified.

### **Report on 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 11, 2023

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

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of New York City Charter School of the Arts (the "School") as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, audit committee, Board of Trustees, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 11, 2023