

New York City Charter School of the Arts

Financial Statements

June 30, 2018 and 2017

Independent Auditors' Report

Board of Trustees New York City Charter School of the Arts

We have audited the accompanying financial statements of New York City Charter School of the Arts (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2018 and for the period from January 4, 2016 (inception) to June 30, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the year ended June 30, 2018 and for the period from January 4, 2016 (inception) to June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the period from January 4, 2016 (inception) to June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the School'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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 3, 2018

New York City Charter School of the Arts

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 512,946	\$ 323,970
Grants and contracts receivable	73,311	108,157
Prepaid expenses and other current assets	55,781	174,462
Total Current Assets	642,038	606,589
Property and equipment, net	152,846	159,668
Security deposit	196,500	-
Restricted cash	50,053	25,014
	\$ 1,041,437	\$ 791,271
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 55,545	\$ 74,169
Accrued payroll and payroll taxes	124,459	44,231
Refundable advances	32,153	5,795
Total Current Liabilities	212,157	124,195
Loan payable	131,000	-
Total Liabilities	343,157	124,195
Net assets, unrestricted	698,280	667,076
	\$ 1,041,437	\$ 791,271

New York City Charter School of the Arts

Statements of Activities

	Year Ended June 30, 2018	Period from January 4, 2016 (inception) to June 30, 2017
	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 2,471,990	\$ 1,431,178
Special education	440,676	161,266
Facilities	-	278,927
Federal grants	96,025	805,820
State grants	14,022	192,774
Total Operating Revenue	<u>3,022,713</u>	<u>2,869,965</u>
EXPENSES		
Program Services		
Regular education	2,179,092	1,752,224
Special education	770,614	620,672
Total Program Services	2,949,706	2,372,896
Supporting Services		
Management and general	480,646	514,576
Fundraising	31,076	58,740
Total Expenses	<u>3,461,428</u>	<u>2,946,212</u>
 (Deficit) from Operations	 <u>(438,715)</u>	 <u>(76,247)</u>
SUPPORT AND OTHER REVENUE		
Grants and contributions	468,046	728,780
Donated services	-	3,330
Interest and other income	1,873	11,213
Total Support and Other Revenue	<u>469,919</u>	<u>743,323</u>
 Change in Net Assets	 31,204	 667,076
NET ASSETS, UNRESTRICTED		
Beginning of period	<u>667,076</u>	<u>-</u>
 End of period	 <u>\$ 698,280</u>	 <u>\$ 667,076</u>

See notes to financial statements

New York City Charter School of the Arts

Statement of Functional Expenses

Year Ended June 30, 2018

(with summarized totals for the period from January 4, 2016 (inception) to June 30, 2017)

	2018						2017
	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	12	\$ 573,219	\$ 89,641	\$ 662,860	\$ 159,886	\$ 12,500	\$ 835,246
Instructional personnel	20	697,621	345,268	1,042,889	-	-	1,042,889
Non-instructional personnel	<u>2</u>	<u>12,787</u>	<u>4,262</u>	<u>17,049</u>	<u>25,575</u>	<u>-</u>	<u>42,624</u>
Total Salaries and Staff	34	1,283,627	439,171	1,722,798	185,461	12,500	1,920,759
Employee benefits and payroll taxes		210,097	71,881	281,978	30,357	2,183	314,518
Accounting and audit fees		-	-	-	19,750	-	19,750
Legal fees		16,925	5,791	22,716	2,445	165	25,326
Advertising and recruiting		34,289	10,710	44,999	3,176	214	48,389
Outside contracted services and consultants		203,920	115,717	319,637	67,968	13,734	401,339
Special events		7,526	1,951	9,477	-	-	9,477
Financial management services		-	-	-	145,000	-	145,000
Contractual services		24,748	6,414	31,162	-	-	31,162
Consulting		2,166	561	2,727	-	-	2,727
Student meals		24,802	6,428	31,230	-	-	31,230
Staff lunches and team building		11,844	3,070	14,914	-	-	14,914
Insurance		21,443	7,336	28,779	3,099	209	32,087
Utilities		2,047	700	2,747	296	20	3,063
Occupancy and rent		24,782	8,479	33,261	3,581	241	37,083
Classroom supplies		34,396	9,015	43,411	-	-	43,411
Instructional materials		69,254	18,613	87,867	-	-	87,867
Professional development		12,118	3,141	15,259	-	-	15,259
Maintenance and repairs		9,369	3,205	12,574	1,354	91	14,019
Office supplies		62,430	20,341	82,771	7,496	488	90,755
Telephone and internet services		27,102	9,272	36,374	3,916	264	40,554
Technology		7,972	2,727	10,699	1,152	78	11,929
Student travel		49,464	12,821	62,285	-	-	62,285
Depreciation and amortization		32,042	10,963	43,005	4,630	311	47,946
Loss on disposal of property and equipment		2,829	967	3,796	408	29	4,233
Miscellaneous		3,900	1,340	5,240	557	549	6,346
Total Expenses		<u>\$ 2,179,092</u>	<u>\$ 770,614</u>	<u>\$ 2,949,706</u>	<u>\$ 480,646</u>	<u>\$ 31,076</u>	<u>\$ 3,461,428</u>
							<u>\$ 2,946,212</u>

New York City Charter School of the Arts

Statements of Cash Flows

	Year Ended June 30, 2018	Period from January 4, 2016 (inception) to June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 31,204	\$ 667,076
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	47,946	34,070
Loss on disposal of property and equipment	4,233	-
Changes in operating assets and liabilities		
Grants and contracts receivable	34,846	(108,157)
Prepaid expenses and other current assets	118,681	(174,462)
Security deposit	(196,500)	-
Accounts payable and accrued expenses	(18,624)	74,169
Accrued payroll and payroll taxes	80,228	44,231
Refundable advances	26,358	5,795
Net Cash from Operating Activities	128,372	542,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(45,357)	(193,738)
Restricted cash	(25,039)	(25,014)
Net Cash from Investing Activities	(70,396)	(218,752)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from loan payable	131,000	-
Net Change in Cash and Cash Equivalents	188,976	323,970
CASH AND CASH EQUIVALENTS		
Beginning of period	323,970	-
End of period	\$ 512,946	\$ 323,970

See notes to financial statements

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2018 and 2017

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 on January 4, 2016 valid for a term of five years and renewable upon expiration 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 166 students in sixth and seventh grades during the 2017-2018 academic year.

The School shared space with a New York City public school beginning in August 2017 and ending June 2018. The School was not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that took place outside the district's school day. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities or services.

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:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2018 and 2017

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

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

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.

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. 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

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2018 and 2017

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

Property and Equipment (continued)

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 year ended June 30, 2018 and for the period from January 4, 2016 (inception) to June 30, 2017.

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.

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 temporarily restricted support 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 unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Advertising and Recruitment

Advertising and recruitment costs are expensed as incurred. Advertising and recruitment expense for the year ended June 30, 2018 and for the period from January 4, 2016 (inception) to June 30, 2017 was \$48,389 and \$37,305.

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.

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. All returns filed by the School are subject to examinations by the applicable taxing jurisdictions.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2018 and 2017

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

Prior Year Summarized Comparative Financial Information

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the period from January 4, 2016 (inception) to June 30, 2017, from which the summarized information was derived.

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 3, 2018.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Furniture and fixtures	\$ 108,544	\$ 97,761
Software	7,350	4,200
Computers and equipment	117,807	91,777
	<u>233,701</u>	<u>193,738</u>
Accumulated depreciation and amortization	(80,855)	(34,070)
	<u>\$ 152,846</u>	<u>\$ 159,668</u>

For the year ended June 30, 2018, the School had a loss on disposal of property and equipment in the amount of \$4,233.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2018 and 2017

5. 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 (Note 9). The loans shall be made in three installments of up to \$196,500 each, with each disbursement coinciding with a security deposit funding under the sublease. The loans will become due and payable, including accrued interest, in three equal installments of \$196,500 starting in July 15, 2022. The loans bear interest at 5.75% per annum through the maturity date of June 28, 2024, and will increase to 8% per annum after the maturity date. At June 30, 2018, the School has an outstanding balance of \$131,000 received from the outside lenders. For purposes of the first draw under this sublease, the School provided the funding for the Board Lenders' component as agreed to by the Outside Lenders.

Minimum future principal payments on the loan payable for the year ending June 30, 2023 is \$131,000.

6. 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. Employee match for the year ended June 30 2018 and for the period from January 4, 2016 (inception) to June 30, 2017 amounted to \$21,571 and \$7,273.

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit 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, 2018 and June 30, 2017, approximately \$300,000 and \$100,000 of cash was maintained with an institution in excess of FDIC limits.

8. 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 year ended June 30, 2018 and for the period from January 4, 2016 (inception) to June 30, 2017, the School received approximately 83% and 52% of total revenue and support from the New York City Department of Education, respectively. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

New York City Charter School of the Arts

Notes to Financial Statements
June 30, 2018 and 2017

9. Commitments

On March 9, 2016, the School signed a lease agreement with Green Ivy Pine Street, LLC for office space under a non-cancelable lease that expired July 30, 2017. Under the terms of the lease, the School paid a security deposit in the amount of \$74,165, included in prepaid expenses and other current assets in the 2017 accompanying statement of financial position. This amount was returned to the School during the year ended June 30, 2018. Rent expense for the year ended June 30, 2018 and for the period from January 4, 2016 (inception) to June 30, 2017 amounted to \$37,083 and \$417,757. The School did not renew the lease upon expiration, and moved into free facilities co-located in a New York City public school building for the 2017-2018 academic year.

On March 8, 2018 the School signed a sublease agreement with NYFA 26 Broadway, LLC for facility space under a non-cancelable lease commencing July 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 and ending fiscal 2020, for a total of \$589,680. During the year ended June 30, 2018, the School paid a security deposit in the amount of \$196,500. 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 Terms at an additional cost. The School also has the option, expiring August 31, 2019, to sublease additional space beginning September 1, 2020 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 commencing 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:

2019	\$ 1,170,114
2020	1,118,758
2021	1,130,863
2022	1,164,789
2023	1,199,732
Thereafter	6,560,633
	<u>\$ 12,344,889</u>

10. 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"), which comprise the statement of financial position as of June 30, 2018, 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 3, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP
Harrison, New York
October 3, 2018

New York City Charter School of the Arts

Independent Auditors' Communication of
Internal Control Related Matters Identified in the Audit

June 30, 2018

**Board of Trustees and Management of
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, 2018, 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.

We have other observations and recommendations that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

This communication is intended solely for the information and use of management, the audit committee, the Board of Trustees, The Charter Schools Institute of the State University of New York, 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

October 3, 2018

Addendum A

Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency

1. Cash Management

During our audit, we noted that a PayPal account used by the School to receive donations is not reconciled on a regular basis. In addition, a General Ledger account for the PayPal account has not been set up by the School.

We recommend that the School create a General Ledger account for the PayPal account and reconcile the account on a monthly basis.

2. Safeguarding of Assets and Maintenance of Fixed Asset Inventory

During our audit, we noted that a previous employee of the School was allowed to remain in possession of a School laptop after that employee was terminated. In addition, this missing laptop was still listed on the School's fixed asset inventory list.

We recommend that the School adhere to its Personnel Policies manual to prevent the loss of company assets. We also recommend that the School review and update its fixed asset inventory list on a regular basis.

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