

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2020

(With Comparative Totals for 2019)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Atmosphere Academy Public Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Atmosphere Academy Public Charter School, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets (deficiency), functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atmosphere Academy Public Charter School as of June 30, 2020, and the changes in its net assets (deficiency) and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Atmosphere Academy Public Charter School's June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of Atmosphere Academy Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Atmosphere Academy Public Charter School's internal control over financial reporting and compliance.

Emphasis of Matter with Respect to Change of Accounting Methods

As discussed in Note A to the financial statements, in 2020, Atmosphere Academy Public Charter School adopted new accounting guidance for recognition of revenue, contributions received and statement of cash flows presentation. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
September 30, 2020

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals for 2019)

<u>ASSETS</u>	June 30,	
	2020	2019
<u>CURRENT ASSETS</u>		
Cash	\$ 9,934	\$ 218,065
Grants and contract receivables	150,650	102,606
Contributions and other receivables	14,784	4,673
Pledge receivable - related party	-	50,000
Prepaid expenses and other current assets	<u>61,795</u>	<u>25,592</u>
TOTAL CURRENT ASSETS	237,163	400,936
 <u>PROPERTY AND EQUIPMENT, net</u>	 899,391	 852,605
 <u>OTHER ASSETS</u>		
Cash in escrow	75,074	75,043
Deposits	<u>240,932</u>	<u>189,906</u>
TOTAL ASSETS	<u>\$ 1,452,560</u>	<u>\$ 1,518,490</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 323,603	\$ 549,924
Current portion of loans from related party	167,500	30,000
Due to NYC Department of Education	<u>130,818</u>	<u>300,027</u>
TOTAL CURRENT LIABILITIES	621,921	879,951
 <u>OTHER LIABILITIES</u>		
Long-term loans from related party	360,000	510,000
Deferred lease liability	<u>254,048</u>	<u>172,157</u>
OTHER LIABILITIES	<u>614,048</u>	<u>682,157</u>
TOTAL LIABILITIES	<u>1,235,969</u>	<u>1,562,108</u>
 <u>NET ASSETS (DEFICIENCY)</u>		
Without donor restrictions	<u>216,591</u>	<u>(43,618)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	<u>\$ 1,452,560</u>	<u>\$ 1,518,490</u>

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIENCY)

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Revenue, gains and other support:		
Public school district:		
Resident student enrollment	\$ 6,607,545	\$ 6,274,548
Students with disabilities	911,447	996,952
Grants and contracts:		
State and local	112,261	209,621
Federal - Title and IDEA	378,423	394,266
Federal - other	-	25,776
NYC DOE Rental assistance	<u>1,859,200</u>	<u>1,564,581</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	9,868,876	9,465,744
Expenses:		
Program services:		
Regular education	5,987,745	6,072,263
Special education	<u>2,118,370</u>	<u>2,189,106</u>
TOTAL PROGRAM SERVICES	8,106,115	8,261,369
Management and general	<u>1,544,950</u>	<u>1,476,915</u>
TOTAL OPERATING EXPENSES	<u>9,651,065</u>	<u>9,738,284</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	217,811	(272,540)
Support and other revenue:		
Contributions:		
Individuals	773	101,766
Fundraising	20,855	37,031
Other income	8,705	6,808
Sublease rental income	12,000	12,000
Interest income	<u>65</u>	<u>43</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>42,398</u>	<u>157,648</u>
CHANGE IN NET ASSETS (DEFICIENCY)	260,209	(114,892)
Net (deficiency) assets at beginning of year	<u>(43,618)</u>	<u>71,274</u>
NET ASSETS (DEFICIENCY) AT END OF YEAR	<u>\$ 216,591</u>	<u>\$ (43,618)</u>

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	No. of Positions June 30, 2020	Year ended June 30,						2019 Total
		2020			2019			
		Program Services			Supporting Services			
	Regular Education	Special Education	Sub-total	Management and General	Sub-total	Total	Total	
Personnel services costs:								
Administrative staff personnel	16	\$ 880,803	\$ 212,009	\$ 1,092,812	\$ 647,651	\$ 647,651	\$ 1,740,463	\$ 1,607,873
Instructional personnel	37	2,215,882	908,723	3,124,605	3,035	3,035	3,127,640	3,125,039
Total salaries and wages	53	3,096,685	1,120,732	4,217,417	650,686	650,686	4,868,103	4,732,912
Fringe benefits and payroll taxes		649,167	234,943	884,110	136,405	136,405	1,020,515	988,668
Retirement		124,130	44,925	169,055	26,083	26,083	195,138	156,735
Legal services		-	-	-	27,367	27,367	27,367	45,760
Accounting/Audit services		-	-	-	21,800	21,800	21,800	21,200
Other Purchased/Professional/Consulting Services		67,209	24,324	91,533	194,254	194,254	285,787	242,727
Building rent		1,145,664	414,632	1,560,296	240,731	240,731	1,801,027	1,725,330
Repairs and maintenance		103,673	37,520	141,193	21,784	21,784	162,977	182,117
Insurance		41,160	14,896	56,056	8,649	8,649	64,705	60,642
Utilities		32,474	11,754	44,228	6,824	6,824	51,052	91,163
Supplies/Materials		154,823	37,266	192,089	-	-	192,089	302,959
Equipment/Furnishings		8,437	2,419	10,856	674	674	11,530	30,352
Staff development		24,635	5,930	30,565	-	-	30,565	8,819
Marketing/Recruitment		61,877	19,893	81,770	8,667	8,667	90,437	30,556
Technology		77,402	28,012	105,414	28,629	28,629	134,043	218,070
Food service		7,343	1,767	9,110	-	-	9,110	27,380
Student services		188,011	45,254	233,265	-	-	233,265	470,137
Office expense		14,784	5,350	20,134	132,554	132,554	152,688	142,760
Depreciation and amortization		162,565	58,835	221,400	34,159	34,159	255,559	221,132
Other		27,706	9,918	37,624	5,684	5,684	43,308	38,865
		\$ 5,987,745	\$ 2,118,370	\$ 8,106,115	\$ 1,544,950	\$ 1,544,950	\$ 9,651,065	\$ 9,738,284

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets (deficiency)	\$ 260,209	\$ (114,892)
Adjustments to reconcile change in net assets (deficiency) to net cash provided from operating activities:		
Depreciation and amortization	255,559	221,132
Changes in certain assets and liabilities affecting operations:		
Grants and contract receivables	(48,044)	67,412
Contributions and other receivables	(10,111)	(3,813)
Pledge receivable - related party	50,000	(50,000)
Prepaid expenses and other current assets	(36,203)	24,717
Deposits	(51,026)	(89,766)
Deferred rent benefit	-	39,355
Accounts payable and accrued expenses	(226,321)	63,936
Deferred lease liability	81,891	172,157
Due to NYC Department of Education	(169,209)	300,027
NET CASH PROVIDED FROM OPERATING ACTIVITIES	106,745	630,265
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(302,345)	(452,244)
NET CASH USED FOR INVESTING ACTIVITIES	(302,345)	(452,244)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings from a related party	427,500	1,160,000
Repayments to a related party	(440,000)	(1,205,000)
NET CASH USED FOR FINANCING ACTIVITIES	(12,500)	(45,000)
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(208,100)	133,021
Cash and restricted cash at beginning of year	293,108	160,087
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 85,008</u>	<u>\$ 293,108</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	<u>\$ 20,440</u>	<u>\$ 3,703</u>

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

(With Comparative Totals for 2019)

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

The Charter School

Atmosphere Academy Public Charter School (the “Charter School”) is an educational corporation that operates as a charter school in Bronx, New York. The Charter School is a middle school with the mission of preparing students to be ready for college, career and life. On October 16, 2014 the Board of Trustees of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration. On January 31, 2020, the Charter School obtained a renewal through July 31, 2025.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

These classes of net assets are defined as follows:

Net Assets Without Donor Restrictions – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current net assets without donor restrictions for specific purposes, projects or investment.

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 net assets with donor restrictions at June 30, 2020 or 2019.

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. 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 and restricted cash balances for the years ended June 30, 2020 and 2019 consisted of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 9,934	\$ 218,065
Cash in escrow	<u>75,074</u>	<u>75,043</u>
	<u>\$ 85,008</u>	<u>\$ 293,108</u>

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The agreement requires \$25,000 be placed in escrow each of the first three years of operations and a balance of \$75,000 be maintained to fund any audit and legal expenses incurred should the Charter School cease operations and dissolve.

Revenue and support 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.

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 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:

	<u>June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contracts receivable	\$ 88,362	\$ 69,522	\$ 170,018

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

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.

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.

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, 2020 or 2019.

Pledges receivable

Pledges receivable represent unconditional promises to give. Pledges that are expected to be collected within one year are recorded at their realizable value. Those that are to be collected in future years are recorded at the present value of estimated future collections. As described in Note K, as of June 30, 2019 all pledges receivable were expected to be collected within one year and are accordingly recorded at their realizable value in the accompanying statement of financial position. There were no pledges receivable at June 30, 2020.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to seven years. Leasehold improvements are being amortized over the term of the lease.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Deferred rent benefit/liability

The Charter School leases its facilities. The leases contain pre-determined changes of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis over the lease terms and records the difference between the recognized rental expense and the amounts payable under the leases as a deferred rent benefit or liability.

Contributed services

The Organization receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

The Charter School received no contributed services for consulting and legal services for the years ended June 30, 2020 and 2019.

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, 2017 through June 30, 2020 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 will not recognize any liability for unrecognized tax benefits.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$90,400 and \$30,600 for the years ended June 30, 2020 and 2019, respectively.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution.

Deposits

Deposits are made up of payments to third parties in connection with facility lease agreements.

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.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Adoption of New Accounting Standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance related to revenue recognition (ASC 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Charter School adopted ASC 606 with a date of the initial application of July 1, 2019.

The Charter School applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets (deficiency), at July 1, 2019. There was no adjustment to the opening balance of net assets (deficiency) at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Charter School does not expect the adoption of the new revenue standard to have a material impact on its change in net assets on an ongoing basis.

As part of the adoption of ASC 606, the Charter School elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Charter School adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

Statement of cash flows

In November 2016, the FASB issued new guidance related to the statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year of cash in the statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 2019. The Charter School adopted this standard as of July 1, 2019 using the retrospective transition method.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

New accounting pronouncement - 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 right-of-use (“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 is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Center’s financial position or results of operations.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through September 30, 2020, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Notes D and K.

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 teaching, 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 operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter School’s cash and shows positive cash generated by operations for fiscal year 2020.

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, 2020 and 2019:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 9,934	\$ 218,065
Grants and contract receivables	150,650	102,606
Contributions and other receivables	14,784	4,673
Pledge receivable - related party	<u>-</u>	<u>50,000</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 175,368</u>	<u>\$ 375,344</u>

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	2020	2019
Furniture and fixtures	\$ 357,523	\$ 334,630
Office and classroom equipment	247,297	230,469
Leasehold improvements	869,927	652,573
Software	17,434	17,434
Computers and equipment	284,129	249,859
Construction in progress	11,000	-
	1,787,310	1,484,965
Less accumulated depreciation	887,919	632,360
	<u>\$ 899,391</u>	<u>\$ 852,605</u>

NOTE D: SCHOOL FACILITIES

The Charter School leases its facilities from a third party with current monthly payments of \$63,300, and monthly payments escalate through June 2029. Rent expense incurred under this lease for the years ended June 30, 2020 and 2019 was approximately \$760,000 and \$856,000, respectively. In August 2020, this lease was amended for the cost of improvements totaling \$198,765 to be included as supplemental rent to be paid on or before September 30, 2020 which is included in the future minimum payments below. The Charter School has two sublease agreements for this facility for the use of space during the summer months and after school. Sublease rental income for these agreements for both the years ended June 30, 2020 and 2019 approximated \$12,000.

The Charter School leases a second location from a third party with current monthly payments of \$53,800, and monthly payments escalate through August 2022. Rent expense for this location approximated \$540,000 and \$569,000 for the years ended June 30, 2020 and 2019, respectively.

In April 2017, the Charter School entered into a 10 year agreement with a third party to lease a third location with escalating monthly payments of approximately \$30,000 per month. The lease went into effect when the School received the certificate of occupancy in November 2018. Rent expense for this location approximated \$339,000 and \$243,000 for the years ended June 30, 2020 and 2019. There is an additional lease for parking at this location for \$4,225 per month through November 2021.

The lease agreements call for changes in the monthly lease payments. The deferred rent liability represents the difference between what will be paid by the Charter School and what is due based on a straight-line calculation of rent over the term of the leases.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE D: SCHOOL FACILITIES, Cont'd

The future minimum payments required under the agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 2,271,800
2022	2,021,800
2023	1,384,800
2024	1,383,300
2025	1,395,300
Thereafter	<u>5,327,700</u>
	<u>\$ 13,784,700</u>

NOTE E: 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 F: CONCENTRATIONS

At June 30, 2020, approximately 59% of grants and contract receivables are due from New York State agencies relating to certain grants.

At June 30, 2019, approximately 68% of grants and contract receivables were due from New York State agencies relating to certain grants.

For both the years ended June 30, 2020 and 2019, approximately 95% of total revenue, gains, and other support came from per-pupil funding and rental assistance provided by New York State through the New York City School District. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE G: RETIREMENT PLAN

The Charter School sponsors a 401(k) retirement plan (the "Plan") for its employees. All employees are immediately eligible to participate in the Plan. The Plan allows for the Charter School to make a matching contribution to the Plan. The Charter School contributed approximately \$195,000 and \$157,000 to the Plan for the years ended June 30, 2020 and 2019, respectively.

NOTE H: OPERATING LEASE

The Charter School leases office equipment under non-cancelable lease agreements at a monthly cost of approximately \$6,700 that will expire at various dates through November 2021. The future minimum payments on this agreement is approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 49,600
2022	<u>15,600</u>
	<u>\$ 65,200</u>

NOTE I: 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 are allocated on the basis of estimates of time and effort.

NOTE J: DUE TO NYC DEPARTMENT OF EDUCATION

Amounts due to the NYC Department of Education represent overpayments related to lease assistance provided by the City for school facilities. These amounts consist of \$130,818 and \$300,027 at June 30, 2020 and 2019 and are included as a liability in the accompanying statement of financial position.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE K: RELATED PARTY TRANSACTIONS

Loans from related party is summarized as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Restructured note payable to a Board Trustee with principal due in three annual installments of \$150,000, one installment of \$60,000, with interest at prime plus 100 basis points, which resets annually (4.25% at June 30, 2020) through July 2023.	\$ 510,000	\$ 510,000
Note payable to a Board Trustee due in one installment of principal and interest at 5.25% in July 2020. This loan was repaid in full subsequent to year end.	17,500	-
Notes repaid in 2020	-	30,000
	<u>527,500</u>	<u>540,000</u>
Less current portion	<u>167,500</u>	<u>30,000</u>
	<u>\$ 360,000</u>	<u>\$ 510,000</u>

Annual maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 167,500
2022	150,000
2023	150,000
2024	60,000
	<u>\$ 527,500</u>

As of June 30, 2019, the Charter School had a \$50,000 pledge receivable from a Board Trustee, which has been included in the accompanying statement of financial position. The pledge was collected in September 2019. There were no pledges received from the Board Trustee for the year ended June 30, 2020.

The Charter School is related to Atmosphere Foundation, Inc. (the "Foundation") through common board representation. There were no contributions from the Foundation for the years ended June 30, 2020 and 2019.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE L: NET ASSETS (DEFICIENCY)

Net assets (deficiency) without donor restrictions are as follows:

	June 30,	
	<u>2020</u>	<u>2019</u>
Undesignated	\$ (682,800)	\$ (896,223)
Invested in property and equipment	<u>899,391</u>	<u>852,605</u>
	<u>\$ 216,591</u>	<u>\$ (43,618)</u>

NOTE M: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of corona virus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

ATMOSPHERE ACADEMY PUBLIC 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
Atmosphere Academy Public 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 Atmosphere Academy Public Charter School, which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and changes in net assets – without donor restrictions, 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 September 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Atmosphere Academy Public Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Atmosphere Academy Public Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Atmosphere Academy Public 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Atmosphere Academy Public Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Atmosphere Academy Public Charter School in a separate letter dated September 30, 2020.

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, Baw & Co. LLP

Rochester, New York
September 30, 2020

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2020



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

September 30, 2020

Board of Trustees
Atmosphere Academy Public Charter School

In planning and performing our audit of the financial statements of Atmosphere Academy Public Charter School (the “Charter School”) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter 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 Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph of this letter and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

During the course of our audit of the financial statements of Atmosphere Academy Public Charter School as of and for the year ended June 30, 2020, we observed the Charter School’s significant accounting policies and certain business, financial and administrative practices. As a result of our observations, we noted the following, which we do not consider to be a significant deficiency or material weakness:

- 1 -

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2020



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

September 30, 2020

Finance Committee
Atmosphere Academy Public Charter School

We have audited the financial statements of Atmosphere Academy Public Charter School as of and for the year then ended June 30, 2020, and have issued our report thereon dated September 30, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 1, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Atmosphere Academy Public Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding other matters noted during our audit in a separate letter to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence. Safeguards in place to eliminate or reduce threats to independence to an acceptable level include a skilled, knowledgeable and experienced Board Treasurer who reviews the draft financial statements prior to issuance and accepts responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Atmosphere Academy Public Charter School is included in Note A to the financial statements. As described in Note A to the financial statements, effective July 1, 2019, the Charter School changed its method of accounting for revenue recognition by adopting FASB Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* and Accounting Standards Update (ASU) 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In addition, the Charter School changed its statement of cash flows presentation by adopting FASB ASC 230. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the allocations of operating expenses to program expenses, management and general expenses, and fundraising expenses and the collectability of grants receivable. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Atmosphere Academy Public Charter School's financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

Significant Difficulties Encountered during the Audit

We are pleased to report we encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Atmosphere Academy Public Charter School’s financial statements or the auditor’s report. We are pleased to report no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Atmosphere Academy Public Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Atmosphere Academy Public Charter School’s auditors.

* * * * *

Should you desire further information concerning these matters, Shelby Stenson or Caitlin Langmead will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee and management of Atmosphere Academy Public Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

Review of Bank Reconciliations

During our audit, we noted that with the transition of Board Treasurer’s during the fiscal year, bank reconciliations were being reviewed by the financial consultant and not the Board Treasurer as required by the Charter School’s finance policy.

Recommendation

We recommend the Charter School update its financial procedures and policies manual to reflect their current procedures over review of bank reconciliations.

Credit Card Support and Approvals

During our audit testing, we noted several transactions where receipts were not maintained to support credit card purchases, as required by the Charter School’s finance policies. In addition, we noted that Principal did not document approval of March 2020 credit card purchases either electronically or on the Debit Card Purchasing Log.

Recommendation

We recommend that the Charter School follow credit card procedures as stated in the Charter School’s finance policies.

* * * * *

This communication is intended solely for the information and use of Management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Charter School’s financial statements. Should you have any questions or comments, please contact Shelby Stenson or Caitlin Langmead.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP