MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of Cardinal McCloskey Community Charter School:

We have performed the procedures enumerated below, which were agreed to by the Board of Trustees and management of Cardinal McCloskey Community Charter School (the "School") and the New York State Education Department ("NYSED") solely to assist the specified parties in evaluating the School's assertion to NYSED that it has maintained compliance with the requirements of the Charter School Program ("CSP") grant and Federal and NYSED guidelines in managing the CSP grant for the period from July 1, 2017 through June 30, 2020. The School's management is responsible for these procedures. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the related results are as follows:

Procedure #1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the School's accounting software and reconcile to the grant revenue recorded by the School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result: MBAF obtained detail of grant expenditures and reconciled to the grant revenue recorded without exception.

Procedure #2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result: MBAF obtained the NYSED approved CSP grant award information, including the budget and any amendments. MBAF noted the revenue and expenditures recorded for the period appear reasonable.

Procedure #3: We will select a sample of expenditures from the detail obtained in Procedure #1.

a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.

b. Other expenses – We will select 10 items or 10% of the total number of other expenses charged to the grant, whichever is less.

c. Using the above selected items, we will:
   i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
   ii. Determine if the expenditure falls into an approved budget category.
   iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result: MBAF determined that each tested payroll and other expenditure was in accordance with the purpose of the grant, fell into an approved budget category, and was charged to the appropriate fiscal period, without exception.

Procedure #4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following.

a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of the responsible School officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.

b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within one month following the date of the request.

Result: MBAF traced the sample expenditures mentioned above to requests for reimbursement, without exception. The School spent the funds prior to receipt. Accordingly, no determination that funds were expended within one month was necessary.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, on these procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Board of Trustees and management of Cardinal McCloskey Community Charter School and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

MBAF CPAs, LLC

New York, NY
October 27, 2020

CARDINAL MCCLOSKEY COMMUNITY CHARTER SCHOOL

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

OCTOBER 27, 2020

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

October 27, 2020

To the Audit Committee
Cardinal McCloskey Community Charter School

We have audited the financial statements of Cardinal McCloskey Community Charter School (the "School") for the period from November 8, 2017 (date of inception) to June 30, 2020 and are prepared to issue our report thereon dated October 27, 2020. Professional standards require that we provide you with the following information related to our audit. This letter includes communications from the auditors to those with audit oversight responsibilities.

REQUIRED COMMUNICATIONS

A. <u>Our Responsibility under U.S. Generally Accepted Auditing Standards:</u>

As stated in our engagement letter dated September 12, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Cardinal McCloskey Community Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are 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 specifically to identify such matters.

B. <u>Planned Scope and Timing of the Audit:</u>

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in August 2020.

C. <u>Auditor Independence:</u>

We affirm that MBAF CPAs, LLC is independent with respect to Cardinal McCloskey Community Charter School.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cardinal McCloskey Community Charter School are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:
As of June 30, 2020, Cardinal McCloskey Community Charter School recorded grants and other receivables of $406,183. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions. Based on our audit procedures which included a discussion with management and a review of subsequent collections we concur with management's conclusion.

Functional Statement Allocation:
Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Depreciation:
Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful lives of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Risk Management in Note 8 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

In the current period, there were seven adjustments proposed by management that in total increased net assets by approximately $33,000. Three of the adjustments were reclassification entries and did not affect net assets. The four adjustments that affected net assets are summarized as follows:

1. To record the New York State additional per pupil revenue for fiscal year 2020, which increased net assets by approximately $28,700.
2. To adjust per pupil revenue based on an updated reconciliation provided by the NYCDOE, which decreased net assets by approximately $7,800.
3. To adjust revenue recognized under the CSP grant, which increased net assets by approximately $6,900.
4. To record in-kind contributions of fixed assets, which increased net assets by approximately $5,200.

Proposed and Uncorrected:

There were no audit adjustments proposed and uncorrected during the period.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 27, 2020.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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K. <u>Other Audit Findings or Issues:</u>

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Cardinal McCloskey Community Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC

CARDINAL MCCLOSKEY COMMUNITY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2020

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cardinal McCloskey Community Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Cardinal McCloskey Community Charter School (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the period from November 8, 2017 (date of inception) to June 30, 2020, 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 of 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 School'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 School'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 Cardinal McCloskey Community Charter School as of June 30, 2020, and the changes in its net assets and its cash flows for the period from November 8, 2017 (date of inception) to June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As further discussed in Note 8 to the financial statements, a global pandemic has been declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The extent and ultimate impact of COVID-19 on the School's operating and financial performance cannot be predicted at this time. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020 on our consideration of Cardinal McCloskey Community 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 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 Cardinal McCloskey Community Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 27, 2020

CARDINAL MCCLOSKEY COMMUNITY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS		
Cash	$	407,525
Cash - restricted		25,000
Grants and other receivables		406,183
Due from NYC Department of Education		15,408
Prepaid expenses and other assets		126,695
Property and equipment, net		149,461
	$	**1,130,272**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$	64,077
Accrued salaries and other payroll related expenses		113,098
		177,175
NET ASSETS		
Net assets - without donor restrictions		853,988
Net assets - with donor restrictions		99,109
		953,097
	$	**1,130,272**

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

CARDINAL MCCLOSKEY COMMUNITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM NOVEMBER 8, 2017 (INCEPTION) TO JUNE 30, 2020

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
OPERATING REVENUE WITHOUT DONOR RESTRICTIONS	
State and local per pupil operating revenue	$ 2,580,625
Government grants and contracts	1,492,524
	4,073,149
EXPENSES	
Program services	2,671,968
Management and general	1,081,336
Fundraising	19,706
	3,773,010
SUPPORT AND OTHER INCOME	
Contributions and other income	39,320
Rental income	238,638
Net assets released from restrictions	275,891
	553,849
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	853,988
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	
Contributions	375,000
Net assets released from restrictions	(275,891)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	99,109
CHANGE IN NET ASSETS	953,097
NET ASSETS – BEGINNING OF PERIOD	-
NET ASSETS – END OF PERIOD	**$ 953,097**

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

CARDINAL MCCLOSKEY COMMUNITY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE PERIOD FROM NOVEMBER 8, 2017 (INCEPTION) TO JUNE 30, 2020

		Program Services			Supporting Services		
	No. of Positions	Regular Education	Special Education	Total	Management and General	Fundraising	2020
Personnel service costs							
Administrative staff personnel	5	$ 301,555	$ 73,764	$ 375,319	$ 293,810	$ 6,330	$ 675,459
Instructional personnel	22	722,190	324,648	1,046,838	-	-	1,046,838
Total salaries and staff	27	1,023,745	398,412	1,422,157	293,810	6,330	1,722,297
Fringe benefits and payroll taxes		207,356	81,085	288,441	53,306	1,039	342,786
Retirement		1,662	663	2,325	200	-	2,525
Legal services		-	-	-	48,921	-	48,921
Accounting and audit services		-	-	-	97,523	-	97,523
Other purchases of professional and consulting services		44,122	8,531	52,653	242,216	2,453	297,322
Occupancy and facility costs		381,348	139,241	520,589	268,705	8,115	797,409
Repairs and maintenance		1,360	543	1,903	163	-	2,066
Insurance		17,259	4,974	22,233	35,138	1,199	58,570
Utilities		76	-	76	546	19	641
Instructional supplies and materials		97,197	21,559	118,756	-	-	118,756
Equipment and furnishings		7,066	2,222	9,288	5,273	191	14,752
Staff development		15,358	4,146	19,504	9,035	-	28,539
Marketing and recruitment		47,273	4,312	51,585	1,530	-	53,115
Technology		47,213	18,580	65,793	10,232	164	76,189
Student services		16,613	4,093	20,706	-	-	20,706
Office expense		23,749	9,351	33,100	7,752	79	40,931
Depreciation and amortization		30,206	12,053	42,259	3,630	-	45,889
Other		561	39	600	3,356	117	4,073
		$ 1,962,164	**$ 709,804**	**$ 2,671,968**	**$ 1,081,336**	**$ 19,706**	**$ 3,773,010**

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

CARDINAL MCCLOSKEY COMMUNITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM NOVEMBER 8, 2017 (INCEPTION) TO JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from operating revenue	$ 3,651,558
Other cash received	647,738
Cash paid to employees and suppliers	(3,676,641)
NET CASH PROVIDED BY OPERATING ACTIVITIES	622,655
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(190,130)
NET INCREASE IN CASH	432,525
CASH AND CASH - RESTRICTED - BEGINNING OF PERIOD	-
CASH AND CASH - RESTRICTED - END OF PERIOD	**$ 432,525**

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	$ 953,097
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	45,889
Non-cash contributions	(5,220)
Changes in operating assets and liabilities:	
Grants and other receivables	(406,183)
Due from NYC Department of Education	(15,408)
Prepaid expenses and other assets	(126,695)
Accounts payable and accrued expenses	64,077
Accrued salaries and other payroll related expenses	113,098
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 622,655**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash and cash - restricted consist of:

Cash	$ 407,525
Cash - restricted	25,000
	$ 432,525

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

1. NATURE OF THE ORGANIZATION

Cardinal McCloskey Community Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on November 8, 2017 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School, led by the Board of Trustees, received a charter from the Charter Schools Institute – State University of New York ("SUNY-CSI") to operate a charter school in the State of New York pursuant to certain terms and conditions set forth in its approved charter application and charter agreement dated August 10, 2017. The School's charter agreement shall expire in July 2024 unless earlier terminated or renewed.

The School opened its doors in the fall of 2019 in the Bronx to kindergarten and first grade students.

The School, as determined by the Internal Revenue Service, is exempt from federal income tax under Section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC. It is also exempt under a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(ii) of the IRC.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the School's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of the change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor-imposed restrictions are perpetual in nature.

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions.

Cash – Restricted

Included in cash – restricted is an escrow account of $25,000 at June 30, 2020, which is held for contingency purposes as required by SUNY-CSI.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Other Receivables

Grants and other receivables represent unconditional promises by government agencies and donors. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value amount to $406,183 at June 30, 2020. The School has determined that no allowance for uncollectible accounts is necessary at June 30, 2020. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions.

Donated Goods

Donations of goods are recognized as contributions in-kind, at their fair value, provided the goods received create or enhance non-financial assets, require specified skills provided by individuals possessing those skills, and typically needs to be purchased, if not provided by donation. Donated goods consist of technology and are estimated at $5,220.

Revenue Recognition

Revenue from state and local governments resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not yet been incurred, if any, are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Transfers of cash or other cash assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions. Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the School fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

Unconditional contributions may or may not be subject to donor-imposed restrictions. Unconditional contributions without donor restrictions are recognized as revenue in changes in net assets without donor restrictions when received or promised. Contributions subject to donor restrictions are recognized in changes in net assets with donor restrictions. When a purpose restriction is satisfied or when a time restriction expires, the contribution is reported as net assets released from restrictions and is recognized in changes in net assets without donor restrictions.

The School receives a substantial portion of its support and revenue from the NYCDOE. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are being depreciated in accordance with the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. The School has established a $5,000 threshold above which assets are capitalized. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the period ended June 30, 2020.

Advertising

The School expenses advertising costs as incurred. The School incurred $53,115 of advertising costs for the period ended June 30, 2020, which is included in the accompanying statement of functional expenses under marketing and recruitment.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of the proportionate share of instructional, management and general, and fundraising expenses. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 27, 2020, which is the date the financial statements were available to be issued.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure and transition.

The School files informational returns in the federal jurisdictions. The School is subject to federal income tax examinations for all fiscal years in which informational returns were filed.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as interest expense. The School would classify penalties in connection with underpayments of income tax as other expense.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue from Contracts with Customers
In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity.

The update is to be applied to the beginning of the year of implementation or retrospectively. In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the update for annual reporting periods beginning after December 15, 2019, and for interim reporting periods beginning after December 15, 2020, with early application permitted. The School has elected the deferral and is currently evaluating the effect the update will have on its financial statements.

Lease Accounting
In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect.

In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2021, and for interim reporting periods beginning after December 15, 2022, with early application permitted. The School has elected the deferral and is currently evaluating the effect the update will have on its financial statements.

Contributed Nonfinancial Assets
In September 2020, the FASB issued an accounting standards update which amends guidance for not-for-profit entities that receive contributed nonfinancial assets. The update requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities, and to disclose information regarding each type of contributed nonfinancial assets. The update is to be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021, and for the interim reporting periods beginning after June 15, 2022. The School is currently evaluating the effect the update will have on its financial statements.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES (CONTINUED)

June 30,		2020
Cash	$	407,525
Cash - restricted		25,000
Grants and other receivables		406,183
Due from NYC Department of Education		15,408
Total financial assets		854,116
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose		(25,000)
Restricted by donors with purpose restrictions		(99,109)
Total financial assets available to management for general expenditures within one year	$	730,007

At June 30, 2020, the School has no board designated net assets.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2020:

			Estimated Useful Lives
Furniture and fixtures	$	74,144	7 years
Computer equipment		91,351	3 years
Software		6,500	3 years
Leasehold improvements		23,355	Life of Lease
		195,350	
Less: accumulated depreciation and amortization		(45,889)	
	$	149,461	

Depreciation and amortization expense for the period ended June 30, 2020 was $45,889.

5. GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of federal and state entitlements and grants, as well as unconditional promises to give by donors. The School expects to collect these receivables within one year. Grants and other receivables consist of the following as of June 30, 2020:

CSP	$	299,738
Title I		63,503
Title II		8,663
NYS Additional Funding		28,729
Other		5,550
	$	406,183

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2020 are available for the following purposes:

Various start up costs - Walton Foundation Grant	$	69,861
COVID-19 Crisis Grant - NYC Charter School Center		12,450
COVID-19 Crisis Costs - Walton Foundation Grant		16,798
	$	99,109

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows for the period ended June 30, 2020:

Various start up costs - Walton Foundation Grant	$	255,139
COVID-19 Crisis Grant - NYC Charter School Center		17,550
COVID-19 Crisis Costs - Walton Foundation Grant		3,202
	$	275,891

7. PENSION PLAN

The School has adopted the Cardinal McCloskey Community Charter School 403(b) Plan (the "Plan") which is qualified under Internal Revenue Code 403(b) for benefit of its eligible employees. The Plan is a defined contribution plan. There are no eligibility requirements for employees to enroll in the Plan. Employees are eligible to receive employer safe harbor contributions once they have completed six consecutive months of service. The Plan calls for the School to match 100% of an eligible employee's contribution up to 3%, plus 50% of an eligible employee's contribution between 3% and 5% of their fiscal year salary. Employees are also eligible for discretionary employer contributions. The vesting period for the Plan is based on a vesting table in which it takes two years to be partially vested and six years to be fully vested. Pension expense amounted to $2,525 for the period ended June 30, 2020 and is included in retirement in the statement of functional expenses.

8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The School cannot reasonably estimate the length or severity of this pandemic; however, economic uncertainties have arisen which could have a material adverse effect on the School's financial position, results of operations and cash flows. The School believes they are taking appropriate actions to mitigate the negative impact.

9. CONCENTRATIONS

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash deposits. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000.

9. CONCENTRATIONS (CONTINUED)

The School received approximately 55% of its total revenue from per pupil funding from the NYCDOE during the period ended June 30, 2020.

The School's grants and other receivables consist of one major grantor accounting for approximately 99% at June 30, 2020.

The School's payables consist of three major vendors accounting for approximately 70% at June 30, 2020.

10. COMMITMENT AND CONTINGENCIES

In April 2018, the School entered into a lease agreement with Aquinas High School, Dominican Convent of Our Lady of the Rosary for leasing the premises at 685 East 182nd Street, Bronx, New York 10457. Effective July 2019, the School amended the lease agreement through July 31, 2021. As part of the lease agreement, the School was required to pay a security deposit of $89,668, which is included in the accompanying statement of financial position under prepaid expenses and other assets.

At June 30, 2020, future minimum rental lease payments are as follows:

June 30,	
2021	$ 509,332
2022	42,444
	$ 551,776

Rent expense and occupancy costs for the period ended June 30, 2020 was $797,409, and is included in occupancy and facility costs on the statement of functional expenses.

As a result of the School's decision to take an additional planning year and not open for operations in the fall of 2018, the School subleased the premises at 685 East 182nd Street to Cardinal McCloskey School and Home for Children d/b/a Cardinal McCloskey Community Services ("CMCS"), a related party of the School. The sublease agreement term was from August 15, 2018 to July 31, 2019. Rental income from the sublease amounted to $238,638 over the life of the lease, which is included in the accompanying statement of activities as rental income.

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

<u>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*</u>

To the Board of Trustees
Cardinal McCloskey Community 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 Cardinal McCloskey Community Charter School (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the period from November 8, 2017 (date of inception) to June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated October 27, 2020.

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 School'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 of 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 reported to management of the School in a separate letter dated October 27, 2020.

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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.

MBAF CPAs, LLC

New York, NY
October 27, 2020