

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2018

(With Comparative Totals for 2017)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

| <u>AUDITED FINANCIAL STATEMENTS</u> | <u>PAGE</u> |
|---|-------------|
| Independent Auditor's Report | 3 |
| Statement of Financial Position | 5 |
| Statement of Activities and Changes in Net Assets | 6 |
| Statement of Functional Expenses | 7 |
| Statement of Cash Flows | 8 |
| Notes to Financial Statements | 9 |
| <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</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 <i>Government Auditing Standards</i> | 16 |

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, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Atmosphere Academy Public Charter School's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 26, 2018 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.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
September 26, 2018

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Comparative Totals for 2017)

| <u>ASSETS</u> | <u>June 30,</u> | |
|---|---------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| <u>CURRENT ASSETS</u> | | |
| Cash | \$ 85,081 | \$ 44,444 |
| Grants and contract receivables | 170,018 | 153,154 |
| Contributions and other receivables | 860 | 2,168 |
| Prepaid expenses and other current assets | <u>50,309</u> | <u>22,325</u> |
| TOTAL CURRENT ASSETS | 306,268 | 222,091 |
| <u>PROPERTY AND EQUIPMENT, net</u> | 621,493 | 375,031 |
| <u>OTHER ASSETS</u> | | |
| Cash in escrow | 75,006 | 50,015 |
| Deposits | 100,140 | 61,248 |
| Deferred rent benefit | <u>39,355</u> | <u>79,442</u> |
| TOTAL ASSETS | <u>\$ 1,142,262</u> | <u>\$ 787,827</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable and accrued expenses | \$ 485,988 | \$ 405,043 |
| Loans from related party | 585,000 | 145,000 |
| Deferred revenue | <u>-</u> | <u>12,945</u> |
| TOTAL CURRENT LIABILITIES | 1,070,988 | 562,988 |
| <u>NET ASSETS</u> | | |
| Unrestricted | <u>71,274</u> | <u>224,839</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,142,262</u> | <u>\$ 787,827</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

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

| | <u>Year ended June 30,</u> | |
|--|----------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Revenue, gains and other support: | | |
| Public school district: | | |
| Resident student enrollment | \$ 5,853,291 | \$ 3,519,487 |
| Students with disabilities | 813,926 | 897,780 |
| Grants and contracts: | | |
| State and local | 169,517 | 122,378 |
| Federal - Title and IDEA | 389,224 | 172,352 |
| Federal - other | - | 36,828 |
| NYC DOE Rental assistance | <u>1,217,747</u> | <u>703,744</u> |
| TOTAL REVENUE, GAINS AND OTHER SUPPORT | 8,443,705 | 5,452,569 |
| Expenses: | | |
| Program services: | | |
| Regular education | 5,156,622 | 2,665,260 |
| Special education | <u>2,187,219</u> | <u>1,590,311</u> |
| TOTAL PROGRAM SERVICES | 7,343,841 | 4,255,571 |
| Management and general | <u>1,332,305</u> | <u>1,286,621</u> |
| TOTAL OPERATING EXPENSES | <u>8,676,146</u> | <u>5,542,192</u> |
| DEFICIT FROM SCHOOL OPERATIONS | (232,441) | (89,623) |
| Support and other revenue: | | |
| Contributions: | | |
| Foundations | - | 30,000 |
| Individuals | 8,965 | 193 |
| In-kind contributions | 29,476 | 56,000 |
| Fundraising | 28,386 | 3,335 |
| Sublease rental income | 12,000 | 19,300 |
| Interest income | <u>49</u> | <u>27</u> |
| TOTAL SUPPORT AND OTHER REVENUE | 78,876 | 108,855 |
| CHANGE IN NET ASSETS | (153,565) | 19,232 |
| Net assets at beginning of year | <u>224,839</u> | <u>205,607</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 71,274</u> | <u>\$ 224,839</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, 2018
(With Comparative Totals for 2017)

| | No. of Positions June 30, 2018 | Year ended June 30, | | | | | | 2017 |
|--|---|----------------------|---------------|------------------------------|---------------------|------------------|----------------|---------------|
| | | 2018 | | | 2017 | | | |
| | | Program Services | | | Supporting Services | | | |
| | Regular Education | Special Education | Sub-total | Management and General | Sub-total | Total | Total | |
| Personnel services costs: | | | | | | | | |
| Administrative staff personnel | | \$ 716,519 | \$ 210,968 | \$ 927,487 | \$ | \$ 530,441 | \$ 1,457,928 | \$ 1,162,271 |
| Instructional personnel | | | | | | | 2,679,045 | |
| Total salaries and wages | | | | | 530,441 | 4,136,973 | | 1,570,673 |
| Fringe benefits and payroll taxes | | 1,775,996 | 903,049 | 314,440 | 530,441 | | 1,167,692 | 2,732,944 |
| Retirement | 14 | 2,492,515 | | 3,606,532 | | | | 568,509 |
| Legal services | 47 | | | | 63,801 | 530,441 | 118,198 | |
| Accounting/Audit services | 61 | | | 1,017,971 | | 149,721 | | |
| Other Purchased/Professional/Consulting Services | | 703,531 | 10,498 | 103,043 | 149,721 | - | 63,801 | 92,475 |
| Building rent | | 71,214 | 31,829 | | 15,155 | 140,953 | 19,600 | 81,974 |
| Repairs and maintenance | | | | | 19,600 | 63,801 | | |
| Insurance | | | - | 958,357 | 15,944 | 19,600 | 124,348 | 636,724 |
| Utilities | | 23,488 | 33,485 | 33,986 | 178,438 | 19,600 | 41,272 | 40,556 |
| Supplies/Materials | | 662,331 | 296,026 | 84,585 | 140,953 | | 47,976 | 90,800 |
| Equipment/Furnishings | | 74,919 | | 108,404 | | 15,944 | 6,151 | 10,297 |
| Staff development | | 24,866 | | 35,980 | | | 23,537 | 52,502 |
| Marketing/Recruitment | | 28,906 | | 41,825 | 5,292 | 5,292 | 2,720 | 147,268 |
| Technology | | 287,278 | 12,919 | 371,863 | 6,151 | 313 | 4,181 | 19,717 |
| Food service | | 11,760 | | 16,022 | | 7,515 | 272,634 | |
| Student services | | 3,052 | 4,262 | 2,657 | 7,515 | 62,947 | 11,481 | 12,323 |
| Office expense | | 148,917 | | 135,957 | 134 | - | 597,714 | 150,522 |
| Depreciation and amortization | | | 64,770 | 2,407 | 62,947 | 313 | 150,350 | 5,408 |
| Other | | 9,024 | | 11,681 | | 25,134 | 96,022 | 88,557 |
| | | <u>402,757</u> | <u>52,788</u> | <u>597,714</u> | <u>25,134</u> | <u>1,332,305</u> | <u>838,446</u> | <u>33,903</u> |
| | | \$ 5,156,622 | \$ 2,287,219 | \$ 7,343,841 | \$ 1,332,305 | \$ 1,332,305 | \$ 3,684,446 | \$ 3,542,192 |
| | | 118,103 | | 170,888 | | 25,134 | | 9,101 |
| | | 8,844 | 3,452 | 12,296 | 1,548 | 1,548 | | |

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ (153,565) | \$ 19,232 |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | |
| Depreciation and amortization | 196,022 | 133,903 |
| Changes in certain assets and liabilities affecting operations: | | |
| Grants and contract receivables | (16,864) | 242,707 |
| Contributions and other receivables | 1,308 | 11,077 |
| Prepaid expenses and other current assets | (27,984) | (2,054) |
| Deposits | (38,892) | 3,811 |
| Deferred rent benefit | 40,087 | (79,442) |
| Accounts payable and accrued expenses | 80,945 | 157,028 |
| Deferred lease liability | - | (51,077) |
| Deferred revenue | (12,945) | (8,181) |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 68,112 | 427,004 |
| <u>CASH FLOWS - INVESTING ACTIVITIES</u> | | |
| Purchases of property and equipment | (442,484) | (183,569) |
| Increase in cash in escrow | (24,991) | (25,014) |
| NET CASH USED FOR INVESTING ACTIVITIES | (467,475) | (208,583) |
| <u>CASH FLOWS - FINANCING ACTIVITIES</u> | | |
| Repayments on short-term note payable | - | (211,750) |
| Borrowings from a related party | 1,390,000 | 23,000 |
| Repayments to a related party | (950,000) | (43,000) |
| NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES | 440,000 | (231,750) |
| NET INCREASE (DECREASE) IN CASH | 40,637 | (13,329) |
| Cash at beginning of year | 44,444 | 57,773 |
| CASH AT END OF YEAR | <u>\$ 85,081</u> | <u>\$ 44,444</u> |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u> | | |
| Cash paid during the year for interest | <u>\$ 2,045</u> | <u>\$ 1,433</u> |

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(With Comparative Totals for 2017)

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.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2018 or 2017.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2018 or 2017.

Unrestricted – 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 unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled 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 Charter School when qualifying expenditures are incurred and billable or the requirements of the grant are met.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions and unconditional promises to give are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

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

Cont'd

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

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 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.

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, 2018 or 2017.

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.

Deferred rent benefit/liability

The Charter School leases its facilities. The leases contains 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.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

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

Cont'd

The Charter School received contributed services, for consulting and legal services, which were valued at \$29,476 and \$56,000 for the years ended June 30, 2018 and June 30, 2017, respectively. These amounts are included in in-kind contributions in the accompanying statement of activities and changes in net assets, and the statement of functional expenses.

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, 2015 through June 30, 2018 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 \$2,700 and \$12,300 for the years ended June 30, 2018 and June 30, 2017, 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.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through September 26, 2018, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note C, Note H and Note I.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | <u>June 30,</u> | |
|--------------------------------|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Furniture and fixtures | \$ 208,841 | \$ 97,425 |
| Office and classroom equipment | 181,828 | 140,681 |
| Leasehold improvements | 285,598 | 136,261 |
| Software | 17,434 | 17,434 |
| Computers and equipment | 249,859 | 184,470 |
| Construction in progress | <u>89,160</u> | <u>13,965</u> |
| | 1,032,720 | 590,236 |
| Less accumulated depreciation | <u>411,227</u> | <u>215,205</u> |
| | <u>\$ 621,493</u> | <u>\$ 375,031</u> |

NOTE C: SCHOOL FACILITIES

The Charter School leases its facilities from a third party through August 1, 2022. Rent expense incurred under this lease for both the years ended June 30, 2018 and 2017 was approximately \$631,500. The Charter School entered into two sublease agreements for this facility during the year ended June 30, 2017 for the use of space during the summer months and after school. Sublease rental income for these agreements for the years ended June 30, 2018 and 2017 approximated \$12,000 and \$19,000, respectively. As of July 1, 2018, the Charter School amended this lease agreement to lease additional facility space beginning July 2018 with escalating monthly payments through June 2029.

The Charter School leases a second location from a third party beginning in September 2017 through August 2022. Rent expense for this location approximated \$451,000 for the year ended June 2018.

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 will go into effect when the School receives the certificate of occupancy. The School expects to received the certificate in October 2018.

The lease agreements call for changes in the monthly lease payments. The deferred rent benefit 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, 2018

(With Comparative Totals for 2017)

NOTE C: SCHOOL FACILITY, Cont'd

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

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|----------------------|
| 2019 | \$ 1,868,700 |
| 2020 | 1,858,200 |
| 2021 | 1,877,200 |
| 2022 | 1,874,800 |
| 2023 | 1,303,700 |
| Thereafter | <u>7,061,500</u> |
| | <u>\$ 15,844,100</u> |

NOTE D: 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 E: CONCENTRATIONS

At June 30, 2018, approximately 81% of grants and contract receivables are due from New York State agencies relating to certain grants.

At June 30, 2017, approximately 67% of grants and contract receivables were due from New York State agencies relating to certain grants.

For the year ended June 30, 2018, 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.

For the year ended June 30, 2017 approximately 96% of total revenue, gains, and other support came from per-pupil funding provided by New York State through the New York City School District.

NOTE F: 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 \$118,000 and \$82,000 to the Plan for the years ended June 30, 2018 and 2017, respectively.

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

NOTE G: OPERATING LEASE

In July 2017, the Charter School received a lease reimbursement for several lease agreements and entered into new non-cancelable lease agreement for office equipment expiring in July 2020. The future minimum payments on this agreement is approximately as follows:

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|-------------------|
| 2019 | \$ 57,600 |
| 2020 | 57,600 |
| 2021 | 4,800 |
| | <u>\$ 120,000</u> |

NOTE H: RELATED PARTY TRANSACTIONS

Loans from related party is summarized as follows:

| | <u>June 30,</u> | |
|--|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Notes payable to a Board Trustee due in one installment of principal and interest at 4.25% at June 30, 2018. In July 2018 these loans were extended to June 30, 2019 due in one installment of principal and interest at 6%. | \$ 145,000 | \$ 145,000 |
| Note payable to a Board Trustee due in one installment of principal and interest at 5.75% in July 2018. This loan was repaid in full subsequent to year end. | 200,000 | - |
| Note payable to a Board Trustee due in one installment of principal and interest at 6% in July 2018. This loan was repaid in full subsequent to year end. | 240,000 | - |
| | <u>\$ 585,000</u> | <u>\$ 145,000</u> |

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, 2018 and 2017.

NOTE I: SUBSEQUENT EVENT

In August 2018, the New York State Education Department (NYSED) notified the Charter School that it had over-allocated approximately \$24,000 in Title IIA funding to the Charter School for the year ended June 30, 2018. NYSED will reduce the Charter School's Title IIA funding for a period of up to five years to recoup the over-allocated funding. The Charter School has not accounted for this over-allocated funding as a liability as of June 30, 2018.

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, 2018 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2018.

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 26, 2018.

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 26, 2018

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

September 26, 2018

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, 2018, 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, 2018, 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:

Approval of Purchases

During our audit, we noted one instance where a purchase over \$15,000 was signed by the Principal but was not signed by a Board Member. Current procedures require all purchases over this threshold to be signed by both the Principal and a Board Member.

Recommendation

We recommend all purchases over \$15,000 be approved by both the Principal and a Board Member or the Charter School update their financial policies to allow for Board approval of the disbursement in a means other than a physical signature. We noted subsequent to year end, the Charter School was in the process of implementing a new policy where purchases over \$15,000 could be approved by a Board Member electronically. We feel the implementation of this policy could strengthen the Charter School’s authorization and approval process of disbursements while reducing some of the difficulties and problems associated with the original policy.

Acknowledgment of Contributions

During our audit, we noted contribution acknowledgement letters were not sent to individuals who donated over \$250 to the Charter School.

Recommendation

We recommend the Charter School follow its policy of acknowledging all contributions over this amount in writing. In accordance with current Treasury regulations a donor who makes a cash contribution of \$250 or more to is required to obtain a proper acknowledgement of the gift from the Charter School in order for the contribution to be deductible.

* * * * *

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

ATMOSPHERE ACADEMY PUBLIC CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

September 26, 2018

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, 2018, and have issued our report thereon dated September 26, 2018. 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 10, 2018, 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.

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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2018. 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