SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
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The Renaissance Charter School

Audited Financial Statements In Accordance With Government Auditing Standards

June 30, 2019

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THE RENAISSANCE CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Renaissance Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of The Renaissance Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 organization'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 organization'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Renaissance Charter School as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the School adopted Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the School's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the School's internal control over financial reporting and compliance.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2019

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2019
(With comparative totals at June 30, 2018)

	6/30/19	6/30/18
Assets		
Current assets:		
Cash and cash equivalents	$167,918	$223,410
Government grants receivable	401,285	1,073,823
Grants receivable - New York City (Note 3)	23,029	26,527
Other receivables (Note 4)	85,517	49,161
Prepaid expenses and other assets	9,075	10,004
Total current assets	686,824	1,382,925
Noncurrent assets:		
Restricted cash (Note 5)	70,118	70,196
Fixed assets, net (Note 6)	137,671	190,330
Total assets	$894,613	$1,643,451
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$159,764	$260,226
Accrued payroll and benefits	2,136,795	2,154,383
Total current liabilities	2,296,559	2,414,609
Noncurrent liabilities:		
Other liabilities - long term portion	1,000,000	1,600,000
Total liabilities	3,296,559	4,014,609
Net assets:		
Without donor restrictions	(2,406,635)	(2,371,158)
With donor restrictions (Note 7)	4,689	0
Total net assets	(2,401,946)	(2,371,158)
Total liabilities and net assets	$894,613	$1,643,451

The attached notes and auditor's report are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 6/30/19	Total 6/30/18
Public support and revenue:				
Public school district:				
Revenue - resident student enrollment	$8,524,392		$8,524,392	$7,965,764
Revenue - students with special education services	1,195,191		1,195,191	1,254,073
Total public school district revenue	9,719,583	0	9,719,583	9,219,837
Federal grants	462,282		462,282	561,155
State and city grants	1,176,731		1,176,731	1,255,013
Food program grants	350,557		350,557	292,612
Contributions and other operating income	97,791	4,689	102,480	116,087
Total public support and revenue	11,806,944	4,689	11,811,633	11,444,704
Expenses:				
Program services:				
Regular education	8,237,253		8,237,253	8,800,808
Special education	1,559,266		1,559,266	1,687,280
Pre-kindergarten	242,734		242,734	228,373
Food program	569,025		569,025	499,177
Total program services	10,608,278	0	10,608,278	11,215,638
Supporting services:				
Management and general	1,105,038		1,105,038	1,092,406
Fundraising	129,105		129,105	114,766
Total supporting services	1,234,143	0	1,234,143	1,207,172
Total expenses	11,842,421	0	11,842,421	12,422,810
Change in net assets	(35,477)	4,689	(30,788)	(978,106)
Net assets - beginning of year	(2,371,158)	0	(2,371,158)	(1,393,052)
Net assets - end of year	($2,406,635)	$4,689	($2,401,946)	($2,371,158)

The attached notes and auditor's report are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for the year ended June 30, 2018)

	Program Services					Supporting Services				
	Regular Education	Special Education	Pre-Kindergarten	Food Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 6/30/19	Total Expenses 6/30/18
Salaries	$4,981,755	$933,290	$152,151	$174,500	$6,241,696	$553,657	$82,512	$636,169	$6,877,865	$7,537,594
Employee benefits and payroll taxes	1,406,235	263,447	42,948	49,257	1,761,887	156,285	23,291	179,576	1,941,463	1,816,865
Pension contributions	1,206,978	226,117	36,864	42,278	1,512,237	134,140	19,991	154,131	1,666,368	1,524,562
Total personnel costs	7,594,968	1,422,854	231,963	266,035	9,515,820	844,082	125,794	969,876	10,485,696	10,879,021
Professional fees	113,062	21,132		58,084	192,278	194,246		194,246	386,524	461,603
Repairs and maintenance	12,489	2,340	381	1,885	17,095	1,388	207	1,595	18,690	20,930
Curriculum and classroom expenses	329,402	77,844	4,668		411,914			0	411,914	530,073
Professional development	10,014	1,876	305	351	12,546	1,113	166	1,279	13,825	32,251
Equipment and furnishings	17,882	3,350	546	4,799	26,577	1,987	296	2,283	28,860	43,576
Office expenses	19,999	3,746	611	701	25,057	9,942	332	10,274	35,331	43,214
Food services				232,285	232,285			0	232,285	210,619
Technology	55,174	10,337	1,686	1,933	69,130	6,132	914	7,046	76,176	42,293
Marketing and recruitment					0	1,228		1,228	1,228	5,537
Insurance	42,853	8,029	1,309	1,501	53,692	11,498	710	12,208	65,900	74,893
Bad debt expense					0	28,820		28,820	28,820	6,412
Depreciation	41,410	7,758	1,265	1,451	51,884	4,602	686	5,288	57,172	72,388
Total other than personnel costs	642,285	136,412	10,771	302,990	1,092,458	260,956	3,311	264,267	1,356,725	1,543,789
Total expenses	$8,237,253	$1,559,266	$242,734	$569,025	$10,608,278	$1,105,038	$129,105	$1,234,143	$11,842,421	$12,422,810

The attached notes and auditor's report are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for the year ended June 30, 2018)

	6/30/19	6/30/18
Cash flows from operating activities:		
Change in net assets	($30,788)	($978,106)
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Depreciation	57,172	72,388
Changes in assets and liabilities:		
Government grants receivable	672,538	(529,021)
Grants receivable - New York City	3,498	(26,527)
Other receivables	(36,356)	(32,826)
Prepaid expenses and other assets	929	6,000
Restricted cash	78	4,813
Accounts payable	(100,462)	76,687
Accrued payroll and benefits	(17,588)	113,741
Grant advance - New York City	0	(14,695)
Other liabilities - long term portion	(600,000)	300,000
Total adjustments	(20,191)	(29,440)
Net cash used for operating activities	(50,979)	(1,007,546)
Cash flows from investing activities:		
Purchase of furniture and equipment	(4,513)	(60,761)
Net cash used for investing activities	(4,513)	(60,761)
Net decrease in cash and cash equivalents	(55,492)	(1,068,307)
Cash and cash equivalents - beginning of year	223,410	1,291,717
Cash and cash equivalents - end of year	$167,918	$223,410
Supplemental disclosure:		
Interest and taxes paid	$0	$0

The attached notes and auditor's report are an integral part of these financial statements.

Note 1 - Organization and Nature of Activities

The Renaissance Charter School (the "School") is a PK-12 public charter school located in Jackson Heights, Queens, New York. Our mission is to foster educated, responsible young leaders who through their own personal growth will spark a renaissance in New York. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"), and subject to certain administrative requirements. The School was originally granted its charter in May 2000 and its most recent charter renewal expires on June 30, 2024. During the year ended June 30, 2015, the School entered its first full day pre-kindergarten class.

The School has been notified by the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

In June 2017, Renaissance Charter School II (the TRCS II), a charter school developed to replicate the learning experience of the School, was approved by the New York State Education Department ("NYSED") to operate in New York State. The anticipated opening is scheduled for the Fall of 2020. Renaissance Charter School II was notified in February 2019 by the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Renaissance Charter School II is related to the School by virtue of common board members.

Note 2 - Significant Accounting Policies

a. Basis of Accounting

The financial statements of the School have been prepared using the accrual basis of accounting, which is the method of recognizing revenue and expenses when earned or incurred regardless of when cash is received or paid.

Effective July 1, 2018, the School adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 12).

Implementation of ASU No. 2016-14 did not require any restatement of opening balances related to the periods presented.

Not-for-profit organizations report information regarding its financial position and activities according to specific classes of net assets, as follows:

- *Net Assets Without Donor Restrictions* – accounts for activity without donor-imposed restrictions.

- *Net Assets With Donor Restrictions* – relates to activity based on specific donor restrictions that are expected to be satisfied by the passage of time or performance of activities.

b. Cash and Cash Equivalents

The School considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash in escrow accounts that are subject to regulations are excluded from cash and cash equivalents.

c. Concentration of Credit Risk

Financial instruments which potentially subject the School to concentration of credit risk consist of cash, money market accounts, and a certificate of deposit, which have been placed with a financial institution that management deems to be creditworthy. From time-to-time, cash balances may be in excess of insurance levels. At year end, there was a significant uninsured balance; however, the School has not experienced any losses from the default of any financial institution.

d. Capitalization Policy

Property and equipment that exceed $1,000 and have a useful life of greater than one year are capitalized at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Furniture and equipment – *5 to 10 years*
Building improvements – *10 years*

e. Revenue – Public School District and Government Grants

The School receives grants from the United States Department of Education, NYSED and NYCDOE to carry out its operations. Program revenues are recognized based on rates established by the School's funding sources and the amount realizable on the accrual basis in the period during which services are provided.

All government grants have been recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement. The difference between cash received and revenue recognized is reflected as government grants receivable or refundable advances.

f. <u>Contributions</u>

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using a risk adjusted discount rate. Conditional contributions are recognized as income when the conditions have been substantially met. All receivables at year end are due to be collected within one year.

g. <u>Donated Services</u>

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the School. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

h. <u>Functional Allocation of Expenses</u>

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The following expense was allocated using time and effort as the basis:

- Salaries

The following expenses were allocated using the full time equivalent of staff allocation as the basis:

- Taxes and benefits
- Pension
- Repairs and maintenance
- Professional development
- Equipment and furnishings
- Office expenses
- Information technology
- Insurance
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

i. Use of Estimates
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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Comparative Financial Information
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the School's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

k. Contingencies
Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.

l. Accounting for Uncertainty in Income Taxes
The School does not believe its financial statements include any material, uncertain tax positions. Tax returns for periods ending June 30, 2016 and later are subject to examination by applicable taxing authorities.

m. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 30, 2019, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date, through our evaluation date, that would require adjustment to or disclosure in the financial statements.

n. New Accounting Pronouncement
On June 21, 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU which becomes effective for the June 30, 2020 year, with early implementation permitted, provides guidance on whether a receipt from a third-party resource provider should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the June 30, 2020 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the June 30, 2021 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The School is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Grants Receivable/(Advance)

Grants receivable/(advance) on the contract with the NYDOE can be summarized as follows:

	6/30/19	6/30/18
Beginning grant receivable/(advance)	$26,527	($14,695)
Funding based on allowable FTE's	9,719,583	9,219,837
Advances received	(9,723,081)	(9,178,615)
Ending receivable/(advance)	$23,029	$26,527

Note 4 - Related Party Transactions

The Renaissance Charter School II ("TRCS II") owes the School $85,517 and $49,161 related to expenses paid on TRCS II's behalf for the years ended June 30, 2019 and 2018, respectively

Note 5 - Restricted Cash

An escrow account has been established to meet the requirement of the Board of Regents of the State of New York. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

Note 6 - Fixed Assets

Fixed assets can be summarized as follows:

	6/30/19	6/30/18
Furniture and equipment	$523,728	$519,215
Building improvements	442,249	442,249
	965,977	961,464
Less: accumulated depreciation	(828,306)	(771,134)
Total fixed assets - net	$137,671	$190,330

Note 7 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for program purposes at year-end.

Note 8 - Significant Concentrations

The School is dependent upon grants from NYCDOE to carry out its operations. Approximately 82% and 81% of the School's total public support and revenue was from NYCDOE for the years ended June 30, 2019 and 2018, respectively.

Note 9 - Donated Space

The School is co-located with PS 255Q, a district 75 program, in a NYCDOE facility, and utilizes approximately 62,000 square feet at no charge. The School was unable to determine a value for this service.

Note 10 - Multi-Employer Benefit Plan

The School participates in two multi-employer plans that provide defined benefits to certain contract labor covered by collective bargaining agreements. The School contributed a total of $1,666,368 and $1,524,562 to both plans during the year ended June 30, 2019 and 2018, respectively. The School's participation in these plans for the annual period ended June 30, 2019 is outlined below. The "EIN" column provides the Employer Identification Number ("EIN") of the plan. The Pension Protection Act ("PPA") zone status is not applicable because they are government plans.

Teachers' Retirement System of the City of New York Pension Plan as of June 30, 2019 consisted of the following:

EIN	Plan End Date	PPA Zone Status	Collective Bargaining Agreement Expiration Date	Contribution
90-0584726	6/30/18	N/A	10/31/18	$1,619,597

Board of Education Retirement System Pension Plan as of June 30, 2019 consisted of the following:

EIN	Plan End Date	PPA Zone Status	Collective Bargaining Agreement Expiration Date	Contribution
13-6400434	6/30/18	N/A	Various	$46,771

Note 11 - Net Asset Deficit

The Board and School Management Team have taken several steps to address and overcome the net asset deficit as of June 30, 2019. The following steps were taken to ensure that the school is viable going forward:

1) The School is working with New York City (NYC") and State to get financial relief to provide additional funding to cover retroactive payments for personnel costs that are required of a unique "conversion school".
2) The most recent State Budget includes additional funding for conversion charter schools.
3) UFT and New York City negotiated a new contract that took effect February 14, 2019. This contract doesn't require the School to make additional retroactive payments for personnel costs, which will allow the School to project its operating expenses more effectively.

4) The School was approved and implemented a student enrollment increase and has made programmatic cuts. Based on budget projected changes, the School has a five-year balanced budget which includes a provision to replenish the emergency fund.
5) The School has the ability to add additional students based on a “charter enrollment float” should this become necessary.

Note 12 - Liquidity and Availability of Financial Resources

The School strives to maintain cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management, the School operates its programs within a board-approved budget and relies primarily on NYC per pupil funding to fund its operations and program activities.

The following reflects the School’s financial assets at June 30, 2019 that are available to meet cash needs for general expenditures within one year:

Cash and cash equivalents	$167,918	
Accounts receivable due within 1 year:		
Government grants	401,285	
NYC Department of Education	23,029	
Total financial assets		$592,232
Less amounts not available to be used within one year:		
Contributions restricted – purpose restrictions		(4,689)
Financial assets available to meet cash needs for general expenditures within one year		$587,543

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
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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*

To the Board of Trustees of
The Renaissance Charter School

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Renaissance Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

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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*.

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.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2019

THE RENAISSANCE CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

<u>Current Year:</u>

None.

<u>Prior Year:</u>

None.

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

Observations and Recommendations

To Management of
The Renaissance Charter School ("the School")

As a result of our audit for the years ending June 30, 2019, we want to provide follow-up to comments raised in the prior year:

Operating Reserve Policy
In the past, we informed the School that the New York State Education Department ("NYSDOE") indicated that Schools should have a viable operating reserve with a board approved policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds, clearly describe authorization for use of reserves and outline requirements for reporting and monitoring. We recommended that the School adopted such a policy for operating reserves to comply with NYSDOE recommendations.

Follow-up to June 30, 2019: *While the management team has considered this recommendation, at this time the School does not have extra cash on hand to fund such a reserve. Therefore, adoption of a formal operating reserve policy has been put on hold until such reserve funds have been established.*

This communication is intended solely for the information and use of management, the board of trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2019

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Communication with Those Charged with Governance

To the Board of Trustees of
The Renaissance Charter School

We have audited the financial statements of The Renaissance Charter School ("the School"), for the year ended June 30, 2019, and have issued our report thereon dated October 30, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards
As stated in our engagement letter dated June 19, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of Audit
We performed our audit according to the plan previously communicated to you in our engagement letter.

Significant Accounting Policies
Management has the responsibility for 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. For 2019, the School adopted ***ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities***. The effects of this are summarized in Note 2, to the financial statements, along with other significant policies. Other than this, no new accounting policies were adopted during the year under audit and the application of existing policies was not changed during the year.

We do want to point out however that a footnote disclosure related the net asset deficit and managements plans to address it remains at footnote 11. The reason for the footnote is that the School has been incurring consistent deficits each year and that as of the June 30, 2019 balance sheet date, liabilities now exceed assets by roughly $2,000,000.

We did not note any other transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. However, we do want to inform you about an unrecorded adjustment:

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Not-for-profit organizations are required to record in-kind contributions for rent received without charge. As you are aware, the School operates out of a public school building leased by New York City. Management has not recorded an adjustment for in-kind rent. It is fairly common practice for charter schools not to record in-kind rent because the value is impractical to determine. While this conflicts with generally accepted accounting principles, we feel the impact on the financial statements is not material because the same amount of revenue and expense is recorded; therefore, there is no impact on the change in net assets or the balance sheet.

Accounting Estimates

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 used in preparing the financial statements were as follows:

- allocation of expenses into program, management, and fundraising categories and to determine where grant funds were used
- useful lives of fixed assets and depreciation methods
- collectability of receivables from government agencies
- balance of retroactive raises due to teachers and administrative staff per terms of their union's collective bargaining agreement

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

Significant Audit Adjustments

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. For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were no adjustments of this kind.

Other than the adjustment passed on relating to in-kind space referred to earlier, there were no other known adjustments that have not been recorded.

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 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.

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 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.

Issues Discussed Prior to Retention of Independent Auditors
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

Difficulties Encountered in Performing the Audit
There were no significant difficulties encountered in performing the audit

Management Representations
We have requested certain representations from management that are included in the management representation letter.

Industry Updates

We would like to update you on several newly issued standards and provide an overview of other matters that impact the nonprofit sector. To summarize:

Accounting Updates

As you probably know by now, the FASB new accounting standard, ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* is now effective

The new ASU impacts substantially all not-for-profits as well as donors, grantor, creditors, and others that use their financial statements. That includes charities, foundations, private colleges and universities, nongovernmental health care providers, cultural institutions, religious organizations, and trade associations, among others. The major changes to financial reporting of not-for-profit organizations can be summarized as follows:

- Net assets are streamlined into two categories: net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be reported, including enhanced disclosures.

- The new regulations retain current requirements to provide information about the nature and amounts of different types of donor-imposed restrictions, highlighting how those restrictions affect the use of resources, including liquidity.

- The "placed in service" option for releasing donor restrictions is removed on capital projects.

- Enhanced disclosures are required about how an organization defines their measure of operations if used on their statement of activities. (See below for additional matters on this topic that will be in the second work stream.)

- The new standards include some specific requirements directed at improving a financial statement user's ability to assess a not-for-profit's available financial resources and its management of liquidity and liquidity risk. Specifically, qualitative information that communicates how a not-for-profit manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date will be required. In addition, quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date will be required. Factors to be considered will include external limits imposed by donors, grantors, laws and contracts with others as well as internal limits imposed by governing board decisions.

- All not-for-profits are now required to provide expenses by nature and function. This could be on the face of the statement of activities, as a separate statement or in the notes.

- Allowing the direct method of reporting on the statement of cash flows but not making it a mandatory requirement. The reconciliation of change in net assets to change in cash flows for the period will be eliminated if the direct method of reporting is elected to encourage entities to consider changing to the direct method.

We have worked with your staff to help implement this important new standard.

FASB New Accounting Standard – Accounting Standards Update No. 2018-08

On June 21, 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides guidance on whether a receipt from a third-party resource provider falls under the contributions standard or whether it is an exchange transaction.

When a resource provider does not receive commensurate value, they are required to follow the contribution guidance. This standard, for the first time, provides information about how to make this evaluation. The ASU also provides a framework for determining whether a contribution is conditional or unconditional and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because it impacts when revenue will be recognized.

Specifically, the ASU explains how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction. Basically, the not-for-profit should evaluate whether the resource provider is receiving value in return for the resources transferred based on the following criteria:

- A resource provider (including a private foundation, a government agency, or other) is not synonymous with the general public. The indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.

- Execution of a resource provider's mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

This evaluation will have the biggest impact on government grants for those entities that have such transactions. Under this new guidance, most government grants will likely be evaluated as a contribution rather than an exchange transaction. However, the revenue recognition may not change in many cases as the contribution is likely to be considered conditional, which has the same recognition principles as does an exchange transaction.

The factors to determine whether a contribution is conditional is based on whether the agreement includes a barrier that must be overcome **and** either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. A probability assessment about whether the recipient is likely to meet a stipulation is not a factor when determining whether the agreement contains a barrier. In addition, a contribution containing stipulations that are not clearly unconditional shall be presumed to be conditional.

The ASU modifies the simultaneous release option, currently in GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This option may now be elected for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns.

A not-for-profit entity that has not issued, or is not a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard to annual reporting periods beginning after December 15, 2018 (a calendar year organization will apply for their December 31, 2019 financial statements and a fiscal year entity will apply during their fiscal year that ends in 2020).

Early adoption is permitted.

The ASU should be applied on a modified prospective basis where there is no cumulative effect adjustment to opening net assets and no restatement of prior period results.

Retrospective application is also permitted.

FASB New Accounting Standard – Accounting Standards Update No. 2016-02

On February 25, 2016, the FASB issued an ASU No. 2016-02, *Leases*. Under this standard, all leases, including operating leases, with terms of more than twelve months will be required to be reflected as assets and liabilities on the statement of financial position. The asset will be for the rights to use the property, equipment or space and the liability will be for the total obligations created by that lease.

For most not-for-profit entities, this ASU will be effective for periods beginning after December 15, 2019, which for practical purposes will be years ending December 31, 2020 and fiscal year entities that end in 2021. During the time before implementation is required, it is important for you to determine how this change will impact your organization. Important financial ratios and measures will change, and that is especially relevant to organizations that have loans with debt covenants.

FASB New Accounting Standard – Accounting Standards Update No. 2014-09

In May 2014, FASB issued an ASU No. 2014-09*, Revenue from Contracts with Customers.* This eliminates the majority of industry specific regulations and focuses more on a principles-based model. This standard applies to exchange transactions that many nonprofits currently have such as tuition, membership dues, licenses and royalties. This standard clearly excludes contributions.

The five-step revenue model highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied. For nonprofit organizations that do not have public debt, this standard is applicable for calendar 2019 entities or those with a fiscal year that ends during 2020.

IRS Updates

Tax Cuts and Jobs Act – Tax Reform Bill

On December 22, 2017, President Trump signed into law H.R. 1, known as the Tax Cuts and Jobs Act, commonly referred to as the Tax Reform Bill. The bill has many aspects which impact non-profit organizations:

- Fringe benefit expenses: non-profit organizations are now potentially subject to a new unrelated business income tax of 21% if they offer certain qualified transportation fringe benefits such as parking and public transit benefits, effective January 1, 2018. This currently may apply to both employers who pay for these benefits or are withholding the cost of these benefits from the employee's salary (with the employee receiving the benefits on a pre-tax basis). Thus, qualified transportation fringe benefits, such as TransitCheck (which is required by NYC Law to be offered by employers with 20 or more full-time, non-union employees), could subject non-profit organizations to the new tax. Such organizations would then be required to file a 990-T, *Exempt Organization Business Income Tax Return*.

  The New York State Assembly and Senate passed a bill that decouples the state tax code from the federal tax code in regard to this area. Governor Cuomo signed the bill into law in late December 2018, thus, organizations that are required to pay the federal tax would not be subject to the state's 9% tax.

  Additionally, in June 2018, a bill was introduced in the U.S. House of Representatives which would completely repeal the unrelated business income tax on these fringe benefits.

- Excise taxes on executive compensation: the bill puts in to place a 21% excise tax on executive compensation paid by a non-profit organization in excess of $1,000,000.

- Unrelated business income tax: the bill requires organizations that have more than one unrelated trade or business to compute their unrelated business taxable income for each individual trade or business. Thus, losses from one business may no longer be used to offset income from another line of business.

Furthermore, the bill made two changes to individual taxpayer filings that stand to have an impact on charitable giving. First, the bill increases the adjusted gross income limitation on cash contributions from 50% to 60%. Second, the bill doubles the standard deduction, beginning in 2018 through 2025, which will have the impact of reducing the number of taxpayers who itemize their deductions and thus reducing the number of taxpayers for whom the charitable deduction will be utilized.

Lastly, of note there are some items that were included in previous versions of the bill that ultimately did not get included in the final bill:

- The "Johnson Amendment": the bill ultimately did not modify or repeal the prohibition of 501(c)3 organizations from participating in political campaigns.

- Royalties income: the final bill did not include a provision to impose unrelated business income taxes on royalties received from licensing an organization's name or logo.

- Private foundations: ultimately, the bill did not revise the current excise tax structure on net investment income.

<u>IRS Online Tools</u>
The IRS introduced a new online tool designed to provide faster, easier access to publicly available information about exempt organizations. The new Tax Exempt Organizations Search ("TEOS") provides an update to EO Select Check. Among the enhancements, the new TEOS tool includes images of newly-filed Form 990's and is mobile-device friendly.

<u>IRS Issues Revenue Procedure 2018-32</u>
The IRS issued Revenue Procedure 2018-32 in order to provide more easily accessible guidance to grantors and contributors to tax-exempt organizations on deductibility and reliance issues. The procedure sets forth the extent to which grantors and contributors may rely on the listing of an organization in the IRS's databases of organizations eligible to receive tax-deductible contributions.

Government Auditing Updates

<u>OMB issues memorandum M-18-18</u>
On June 20, 2018, OMB issued memorandum M-18-18 titled, *Implementing Statutory Changes to the Micro-Purchase and Simplified Acquisition Thresholds for Financial Assistance*. The memorandum states that increases to the micro-purchase threshold will be $10,000 and the simplified acquisition threshold will be $250,000 effective upon issuance of this memo.

<u>New Yellow Book Issued</u>
In July 2018, the Government Accountability Office released the 2018 revision of *Government Auditing Standards* (often referred to as The Yellow Book or GAGAS). The areas with significant changes from the previous (2011) edition of The Yellow Book include:

- A new format and organization,
- Independence,
- CPE requirements,
- Peer review,
- Internal control,
- Waste and abuse, and
- Reviews of financial statements.

The most significant changes in this edition of the Yellow Book have to do with non audit services in relation to independence requirements.

The 2018 revision supersedes the 2011 Yellow Book, the 2005 *Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education* and the 2014 *Government Auditing Standards: Guidance for Understanding the New Peer Review Ratings.*

The 2018 Yellow Book is effective for financial audits, attestation engagements and reviews of financial statements for periods ending on or after June 30, 2020. It is effective for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

<u>Proposed Changes to Data Collection Form</u>
The Federal Audit Clearinghouse (FAC) has issued proposed revisions to the data collection form (DCF) in a recent Federal Register notice. This proposal will not impact 2018 singe audits but if the revisions are enacted, would impact singe audits for 2019, 2020 and 2021. The following is a summary of those changes:

- The audit finding information currently required to be included in the form would be expanded to include the actual text of the audit finding.
- Auditors would be asked to indicate whether there was communication to the auditee in a written document relating to any issues that were not an audit finding but warranted the attention with those charged with governance.
- Auditees would be required to include the text of their corrective action plans.
- Auditees would also be required to include the text of the notes to the schedule of expenditures of federal award.

In addition, there will be a mechanism for entities to voluntarily self-report that they did not meet the threshold to require a single audit and this information would be posted on the FAC web site.

<u>Independence Issues</u>
Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with The Renaissance Charter School or any of its board trustees that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees and management of The Renaissance Charter School.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2019

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

June 19, 2019

Stacey Gauthier
Principal
And Those Charged with Governance
The Renaissance Charter School
35-59 81st Street
Jackson Heights, NY 11372

Dear Stacey:

We are pleased to confirm our understanding of the services we are to provide for The Renaissance Charter School for the year ended June 30, 2019.

We will audit the financial statements of The Renaissance Charter School, which comprise the statement of financial position as of June 30, 2019, the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements. Also, the following supplementary information accompanying the financial statements will be subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a separate written report accompanying our auditor's report on the financial statements:

1. Schedule of expenditures of federal awards
2. Schedule of findings and questioned costs

Audit Objectives

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of

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federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of 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, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion. We will issue written reports upon completion of our Single Audit. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinions are other than unmodified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue reports, or we may withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from the Organization's attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards.*

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The Renaissance Charter School's compliance with provisions of applicable laws, regulations contracts, and agreements, including grant agreements.

However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards.*

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Organization's major programs. The purpose of these procedures will be to express an opinion on The Renaissance Charter School's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Other Services

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

We will also assist in preparing the financial statements of the Organization in conformity with U.S. generally accepted accounting principles based on information provided by you. We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

We will prepare the Organization's federal and state information returns (Form 990 and CHAR 500) for the year ended June 30, 2019 based on information provided by you. We will also assist in preparing the financial statements, schedule of expenditures of federal awards, and related notes of the Organization in conformity with U.S. generally accepted accounting principles and the Uniform Guidance based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. At this time, New York State does not permit electronic filing; therefore, we will send you an electronic copy for you to print out to file with New York State. We will also send you electronic copies for your records unless we receive a specific request for hard copies.

In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than $100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will perform the services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and tax services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

As a result of the Tax Cut and Jobs Act passed in December 2017, exempt organizations may now be subject to unrelated business income taxes in connection with providing certain fringe benefits to its employees after December 31, 2017. This information is required to be filed on form 990-T. If it is determined that such a filing will be necessary for your organization, a fee of $500 will be billed for the preparation of the return.

Management Responsibilities

Management is responsible for (1) designing, implementing, establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. Management is also responsible for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Management responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us, and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documents, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence.

Management responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Management responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. Management agrees to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we reported on the schedule of expenditures of federal awards. Management also agrees to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) management is responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

You agree to assume all management responsibilities relating to the tax services, financial statements, schedule of expenditures of federal awards, and related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter the tax services provided and our assistance with preparation of the financial statements, the schedule of expenditures of federal awards, and related notes and that you have evaluated the adequacy of our services and have reviewed and approved the results of the services, the financial statements, the schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Audit Administration and Other

We understand that your employees and/or consultants will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. **It is management's responsibility** to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to your cognizant or oversight agency for audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of our personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any addition period requested by you. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

E-mail Communication

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be property delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

Posting of Audit Report and Financial Statements on Your Web Site

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify us from any and all claims that may arise from any differences between the electronic and signed copies.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

Fee

Our fee will be $26,250. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance. Upon request, we will also provide up to 10 copies of the final report without charge. Any additional copies will cost $5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney’s fees.

A payment is required upon the signing of this letter in the amount of $5,000. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

Independence

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities. We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge our acceptance of these responsibilities.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of The Renaissance Charter School for the year ended June 30, 2019.

Denise Hun

Authorized Signature

Director of Operations & Finance

Title

6-24-19

Date

EXHIBIT 1

Lilling & Company LLP

Certified Public Accountants

Report on the Firm's System of Quality Control

April 20, 2017

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York State Society of CPA's

We have reviewed the system of quality control for the accounting and auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility
The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility
Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations
Engagements selected for review included engagements performed under *Government Auditing Standards,* including a compliance audit under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

EXHIBIT 1

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.

Lilling & Company

LILLING & COMPANY LLP

EXHIBIT 2

The Renaissance Charter School

35-59 81st Street, Jackson Heights, NY 11372
www.renaissancecharter.org • 718-803-0060 • 718-803-3785 (fax)

October 30, 2019

Schall & Ashenfarb, CPA's, LLC
307 Fifth Avenue, 15th Floor
New York, NY 10016

Dear Sirs:

This representation letter is provided in connection with your audit of the financial statements of The Renaissance Charter School, which comprise the statements of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 30, 2019, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 19, 2019, including our responsibility for the preparation and fair presentation of the financial statements, in accordance with US GAAP.

2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.

8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.

9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.

10. Material concentrations, if applicable, have been appropriately disclosed in accordance with U.S. GAAP.

11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

12. The notes to the financial statements disclose all of the matters of which we are aware that are relevant to the School's ability to continue as a going concern within a one-year period after the date the financial statements are available to be issued, including conditions or events and management's plans

Non-Attest Services

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.

2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.

3. Evaluated the adequacy and results of the services performed.

4. Accepted responsibility for the results of the services.

As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

Information Provided

1. We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
   b) Additional information that you have requested from us for the purpose of the audit.
   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
   d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:

   a) Management,
   b) Employees who have significant roles in internal control, or
   c) Others where the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.

6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.

8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.

9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

EXHIBIT 2

11. We have provided you with all of the information that is relevant to our plans to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the Organization's ability to continue as a going concern for at least one year after the date the financial statements are available to be issued, including our evaluation of the likelihood that those plans can be effectively implemented.

12. The Renaissance Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

13. There have been no instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

14. There have been no instances that have occurred, or are likely to have occurred, of noncompliance with provision of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

15. There have been no instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

Stacey Gauthier
Principal

Denise Hur
Director of Operations & Finance