

THE RENAISSANCE CHARTER SCHOOL 2

**Audited Financial Statements In Accordance
With Government Auditing Standards**

June 30, 2021

THE RENAISSANCE CHARTER SCHOOL 2

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Renaissance Charter School 2

Report on the Financial Statements

We have audited the accompanying financial statements of The Renaissance Charter School 2 (the "School"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows from inception through June 30, 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

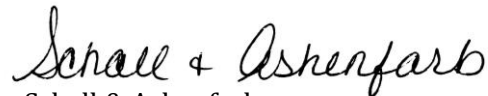
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Renaissance Charter School 2 as of June 30, 2021, and the changes in its net assets and its cash flows for the period from inception through June 30, 2021 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.


Schall & Ashenfarb
Certified Public Accountants, LLC

October 25, 2021

**THE RENAISSANCE CHARTER SCHOOL 2
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2021**

Assets

Cash and cash equivalents	\$215,663
Government grant receivable - per pupil funding (Note 3)	5,742
Government grants receivable - other	102,342
Due from related organization (Note 4)	2,877
Prepaid expenses and other assets	115,358
Security deposit	103,650
Restricted cash (Note 5)	25,035
Fixed assets, net (Note 6)	<u>331,588</u>
Total assets	<u><u>\$902,255</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	\$197,569
Deferred rent	<u>214,181</u>
Total liabilities	<u>411,750</u>
Net assets - without donor restrictions	<u>490,505</u>
Total liabilities and net assets	<u><u>\$902,255</u></u>

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

THE RENAISSANCE CHARTER SCHOOL 2
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 2021

Without donor restrictions:

Public support and revenue:

Public school district revenue: (Note 3)	
Resident student enrollment	\$2,248,352
Students with special education services	125,765
Total public school district revenue	<u>2,374,117</u>
New York City rental assistance (Note 3)	674,506
Other government grants	995,464
Contributions	345,000
Interest income	35
Total public support and revenue	<u><u>4,389,122</u></u>

Expenses:

Program services:	
Regular education	2,718,315
Special education	349,826
Food program	90,193
Total program services	<u>3,158,333</u>
Supporting services:	
Management and general	691,282
Fundraising	49,002
Total supporting services	<u>740,284</u>
Total expenses	<u><u>3,898,617</u></u>
Change in net assets	490,505
Net assets - beginning	<u>0</u>
Net assets - ending	<u><u>\$490,505</u></u>

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

THE RENAISSANCE CHARTER SCHOOL 2
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 2021

	Program Services			Supporting Services			Total Expenses	
	Regular Education	Special Education	Food Program	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$1,233,763	\$158,776	\$4,000	\$1,396,539	\$180,932	\$16,125	\$197,057	\$1,593,596
Employee benefits and payroll taxes	232,423	29,911	754	263,088	34,084	3,038	37,122	300,210
Total personnel costs	<u>1,466,186</u>	<u>188,687</u>	<u>4,754</u>	<u>1,659,627</u>	<u>215,016</u>	<u>19,163</u>	<u>234,179</u>	<u>1,893,806</u>
Professional fees	167,733	21,586	5,750	195,069	297,069	17,500	314,569	509,638
Rent expense	787,154	101,301	2,552	891,007	115,436	10,288	125,724	1,016,731
Repairs and maintenance	2,158	278	7	2,443	316	28	344	2,787
Curriculum and classroom expenses	115,757	14,897		130,654			0	130,654
Professional development	24,604	3,166		27,770			0	27,770
Equipment and furnishings	11,097	1,428	36	12,561	1,627	145	1,772	14,333
Office expenses	10,956	1,410	36	12,401	1,607	143	1,750	14,151
Food services			76,628	76,628			0	76,628
Technology	53,695	6,910	174	60,779	7,874	702	8,576	69,355
Marketing and recruitment				0	40,756		40,756	40,756
Insurance	35,545	4,574	115	40,234	5,213	465	5,678	45,912
Depreciation	43,430	5,589	141	49,160	6,368	568	6,936	56,096
Total other than personnel costs	<u>1,252,129</u>	<u>161,139</u>	<u>85,439</u>	<u>1,498,706</u>	<u>476,266</u>	<u>29,839</u>	<u>506,105</u>	<u>2,004,811</u>
Total expenses	<u>\$2,718,315</u>	<u>\$349,826</u>	<u>\$90,193</u>	<u>\$3,158,333</u>	<u>\$691,282</u>	<u>\$49,002</u>	<u>\$740,284</u>	<u>\$3,898,617</u>

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

THE RENAISSANCE CHARTER SCHOOL 2
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 2021

Cash flows from operating activities:	
Change in net assets	\$490,505
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	56,096
Changes in assets and liabilities:	
Government grant receivable - per pupil funding	(5,742)
Government grants receivable - other	(102,342)
Due from related organization	(2,877)
Prepaid expenses and other assets	(115,358)
Security deposit	(103,650)
Accounts payable and accrued expenses	197,569
Deferred rent	214,181
Total adjustments	<u>137,877</u>
Net cash provided by operating activities	<u>628,382</u>
 Cash flows from investing activities:	
Purchases of fixed assets	<u>(387,684)</u>
Net cash used for investing activities	<u>(387,684)</u>
 Net increase in cash, cash equivalents, and restricted cash	240,698
 Cash, cash equivalents, and restricted cash - beginning	<u>0</u>
 Cash, cash equivalents, and restricted cash - ending	<u><u>\$240,698</u></u>
 Cash, cash equivalents, and restricted cash:	
Cash and cash equivalents	\$215,663
Restricted cash	\$25,035
Total	<u><u>\$240,698</u></u>

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

THE RENAISSANCE CHARTER SCHOOL 2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Note 1 - Organization and Nature of Activities

The Renaissance Charter School 2 (the "School"), located in Queens, New York is a not-for-profit education corporation chartered by the Board of Regents of the State of New York, for and on behalf of the State Education Department.

The School is modeled after The Renaissance Charter School ("TRCS"), a public charter school located in Jackson Heights, Queens, New York. The School's mission as a planned Kindergarten to 12th grade school is to foster educated, responsible, humanistic young leaders who will through their own personal growth spark a renaissance in New York. The School's first year of operations was the 2020-2021 fiscal year and they had an average enrollment of approximately 140 Kindergarten and 1st Grade students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"). The School was granted a provisional charter for a term up to and including June 2025. The financial statements reflect activity from inception through June 30, 2021.

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.

The School is affiliated with TRCS by virtue of some common board members and a memorandum of understanding whereby TRCS provides support and guidance to the School through shared staff. TRCS does not meet the requirements for consolidation because the School does not exercise control over them.

Note 2 - Significant Accounting Policies

a. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting which is the process of recognizing revenue and expenses when earned or incurred rather when received or paid.

b. Basis of Presentation

Net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Net Assets Without Donor Restrictions* – represents those resources for which there are no restrictions by donors as to their use.
- *Net Assets With Donor Restrictions* – represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. The School did not have any net assets with donor restrictions on June 30, 2021.

c. Revenue Recognition

The School follows the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2018-08 ("Topic 605") for recording contributions, which 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.

The School's public-school district revenue and other government grants are primarily conditional, non-exchange transactions and fall under Topic 605. Revenue from these transactions is recognized when performance related outcomes are achieved and other conditions under the agreements are met.

The School records grants as revenue in the period they become unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using an interest-free discount rate, when deemed material. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions and grants that are due within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Receivables are reviewed for collectability. Based on knowledge of specific funders, no allowance for doubtful accounts exists as of June 30, 2021. Write-offs will be made directly to operations in the period the receivable is deemed to be uncollected.

d. Cash and Cash Equivalents

The School considers all liquid investments purchased with a maturity of three months or less to be cash and cash equivalents. The School follows ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This requires that restricted cash and cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows.

e. Concentration of Credit Risk

Financial instruments which potentially subject the School to concentration of credit risk consist of checking and money market accounts which have been placed with a financial institution that management deems to be creditworthy. At various times, 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.

f. 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 – *15 years*

g. Donated Services

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. Functional Allocation of Expenses

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. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

Salaries were allocated using time and effort as the basis. The following costs were allocated using the salary allocation as the basis:

- Employee benefits and payroll taxes
- Rent expense
- Professional development
- Equipment and furnishings
- Office expenses
- Technology
- Insurance
- Depreciation

Certain program expenses have been allocated between Regular Education and Special Education based on student FTE rates. 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. 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.

k. Accounting for Uncertainty in Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2018, the School's initial filing, and later are subject to examination by applicable taxing authorities.

l. New Accounting Pronouncement

FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the June 30, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

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

Note 3 - Grant Receivable – Per Pupil Funding

Activity related to the contract with the NYCDOE can be summarized as follows:

Funding based on allowable FTE's	\$2,374,117
Advances received	<u>(2,368,375)</u>
Ending receivable	<u>\$5,742</u>

In addition to per pupil funding, the School was entitled to receive a rent subsidy, that is calculated at the lower of 30 percent of the per pupil amount or actual lease costs. During the year ended June 30, 2021, the amount of rent subsidy recognized for the School's space was \$674,506 based on the per pupil cap.

Note 4 - Related Party Transactions

The School has an ongoing support agreement with TRCS, the related organization described in Note 1. As part of the agreement, the School pays a management fee in exchange for receiving certain staff time and other operating support from TRCS.

The net balance due from TRCS to the School as of June 30, 2021 consists of the following:

Management fee charged by TRCS	(\$200,000)
Reimbursable expenses paid by TRCS	(31,953)
Grants to the School collected by TRCS	49,522
Payments to TRCS	<u>185,308</u>
Balance due to the School at 6/30/21	<u>\$2,877</u>

Note 5 - Restricted Cash

An escrow account has been established to meet the requirement of the charter agreement. 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:

Furniture and equipment	\$264,757
Building improvements in process	<u>122,927</u>
	387,684
Less: accumulated depreciation	<u>(56,096)</u>
Total fixed assets - net	<u>\$331,588</u>

Note 7 - Commitments

The School has a non-cancelable lease agreement for its temporary incubation space that expires on June 30, 2022 with an option to extend for one more year.

In addition, the School entered into a sublease agreement for a long-term space that will commence on July 1, 2022 or July 1, 2023 with a term of 31 years. The School expects this lease to commence on July 1, 2022 and end on June 30, 2053. This sublease agreement includes rental payments based on the School's per pupil funding and enrollment with a minimum rent floor each year.

Future minimum rent payments under these agreements are as follows:

Year ending:	June 30, 2022	\$1,016,731
	June 30, 2023	1,803,603
	June 30, 2024	2,292,680
	June 30, 2025	2,802,853
	June 30, 2026	3,334,822
	Thereafter	<u>124,803,132</u>
Total		<u>\$136,053,821</u>

Note 8 - Significant Concentrations

The School is dependent upon grants from NYCDOE to carry out its operations. Approximately 70% of the School's total public support and revenue was from NYCDOE from inception through June 30, 2021.

Note 9 - 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 per pupil funding and grants to fund its operations and program activities.

At June 30, 2021, the School's financial assets available to meet cash needs for general expenditures within one year totaled \$323,747, which consist of cash and cash equivalents of \$215,663 and government grants receivable of \$108,084.

Note 10 - Subsequent Events

Subsequent events have been evaluated through October 25, 2021, the date the financial statements were issued. The School has concluded that no other material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.

Note 11 - Other Matters

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an impact on the economies and financial markets of many countries, including the geographical area in which the School operates. As of the date of the financial statements, many of the travel restrictions and stay at home orders have been lifted, however, supply chains remain impacted. Management continues to monitor the outbreak, however, as of the date of these financial statements, the potential impact cannot be quantified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

To the Board of Trustees of
The Renaissance Charter School 2

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 2 (the "School"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the period from inception through June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

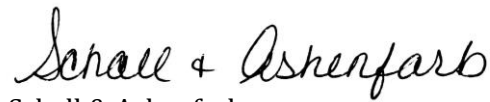
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free 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 financial statements. 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
Certified Public Accountants, LLC

October 25, 2021

**THE RENAISSANCE CHARTER SCHOOL 2
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021**

Current Year:

None

Prior Year:

None – This was the School’s first audit.