

Bedford Stuyvesant New Beginnings Charter School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees Bedford Stuyvesant New Beginnings Charter School

We have audited the accompanying financial statements of Bedford Stuyvesant New Beginnings Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2017, 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 27, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 3, 2017

Bedford Stuyvesant New Beginnings Charter School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,443,534	\$ 1,614,801
Grants and contracts receivable	627,217	412,560
Prepaid expenses and other current assets	<u>283,758</u>	<u>8,225</u>
Total Current Assets	2,354,509	2,035,586
Property and equipment, net	1,813,909	1,900,242
Restricted cash	75,313	75,238
Security deposits	<u>79,845</u>	<u>79,845</u>
	<u>\$ 4,323,576</u>	<u>\$ 4,090,911</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 45,801	\$ 265,657
Accrued payroll and payroll taxes	384,670	355,737
Refundable advances	<u>17,416</u>	<u>22,265</u>
Total Current Liabilities	447,887	643,659
Deferred rent	<u>3,121,556</u>	<u>2,937,211</u>
Total Liabilities	3,569,443	3,580,870
Net assets, unrestricted	<u>754,133</u>	<u>510,041</u>
	<u>\$ 4,323,576</u>	<u>\$ 4,090,911</u>

Bedford Stuyvesant New Beginnings Charter School

Statement of Activities Year Ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

	2017	2016
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 10,978,722	\$ 9,728,062
State and local per pupil facilities funding	298,775	273,416
Federal grants	518,020	338,505
State and city grants	323,914	296,144
Contributions and private grants	150	2,350
After school program	53,513	36,339
In-kind donation	-	19,665
Other income	19,240	8,800
Total Revenue and Support	12,192,334	10,703,281
EXPENSES		
Program Services		
Regular education	6,960,991	6,036,314
Special education	2,076,678	1,658,745
Supplementary education	167,557	306,085
Total Program Services	9,205,226	8,001,144
Supporting Services		
Management and general	2,446,260	1,980,090
Fundraising	296,756	174,106
Total Expenses	11,948,242	10,155,340
Change in Net Assets	244,092	547,941
NET ASSETS, UNRESTRICTED		
Beginning of year	510,041	(37,900)
End of year	\$ 754,133	\$ 510,041

Bedford Stuyvesant New Beginnings Charter School

Statement of Functional Expenses
 Year Ended June 30, 2017
 (with summarized totals for the year ended June 30, 2016)

	2017				2016			
	Regular Education	Special Education	Supplementary Education	Total	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 4,192,548	\$ 1,245,692	\$ 102,750	\$ 5,540,990	\$ 1,215,815	\$ 28,614	\$ 6,785,419	\$ 5,572,792
Employee benefits and payroll taxes	886,828	263,495	21,734	1,172,057	257,175	6,053	1,435,285	1,155,846
Audit and accounting fees	-	-	-	-	22,250	-	22,250	22,250
Legal fees	-	-	-	-	40,617	-	40,617	19,665
Marketing and recruiting	33,588	18,647	-	52,235	34,397	3,440	90,072	118,932
Financial management services	-	-	-	-	130,750	-	130,750	52,484
Contractual services	781	232	19	1,032	232	-	1,264	1,961
Consulting	17,603	8,230	19,181	45,014	186,738	252,534	484,286	422,623
Leased equipment	-	-	-	-	23,361	236	23,597	11,241
Student food services	9,626	2,792	-	12,418	2,788	-	15,206	12,549
Staff lunches	30,375	8,809	-	39,184	8,801	-	47,985	48,572
Insurance	47,984	13,916	-	61,900	13,902	-	75,802	59,797
Utilities	52,257	15,527	1,281	69,065	15,509	-	84,574	105,435
Rent	814,704	242,065	19,967	1,076,736	241,820	-	1,318,556	1,317,986
Postage and shipping	-	-	-	-	6,264	330	6,594	5,086
Classroom supplies	55,994	16,681	-	72,675	692	-	73,367	101,257
Instructional materials	171,658	51,197	-	222,855	-	-	222,855	180,788
Professional development	69,479	20,722	-	90,201	9,273	-	99,474	30,967
Repairs and maintenance	133,266	39,411	2,625	175,302	39,368	-	214,670	275,615
Office expense	1,099	318	-	1,417	83,343	4,715	89,475	110,144
Telephone and internet services	28,771	8,344	-	37,115	8,144	192	45,451	62,057
Information technology	96,316	27,933	-	124,249	27,262	642	152,153	97,536
Student transportation	49,732	14,833	-	64,565	-	-	64,565	37,939
Dues and subscriptions	33,001	9,571	-	42,572	9,561	-	52,133	20,144
Depreciation and amortization	233,422	67,695	-	301,117	67,627	-	368,744	310,365
Miscellaneous	1,959	568	-	2,527	571	-	3,098	1,309
Total Expenses	\$ 6,960,991	\$ 2,076,678	\$ 167,557	\$ 9,205,226	\$ 2,446,260	\$ 296,756	\$ 11,948,242	\$ 10,155,340

Bedford Stuyvesant New Beginnings Charter School

Statement of Cash Flows
Year Ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 244,092	\$ 547,941
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	368,744	310,365
Deferred rent	184,345	184,346
Changes in operating assets and liabilities		
Grants and contracts receivable	(214,657)	(214,326)
Prepaid expenses and other current assets	(275,533)	89,310
Accounts payable and accrued expenses	(219,856)	37,318
Accrued payroll and payroll taxes	28,933	73,804
Refundable advances	<u>(4,849)</u>	<u>8,623</u>
Net Cash from Operating Activities	<u>111,219</u>	<u>1,037,381</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(282,411)	(330,791)
Restricted cash	<u>(75)</u>	<u>(75)</u>
Net Cash from Investing Activities	<u>(282,486)</u>	<u>(330,866)</u>
 Net Change in Cash and Cash Equivalents	(171,267)	706,515
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,614,801</u>	<u>908,286</u>
 End of year	<u>\$ 1,443,534</u>	<u>\$ 1,614,801</u>

Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

Bedford Stuyvesant New Beginnings Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 12, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School renewed its charter for an additional three-year term expiring June 30, 2018. The School's mission is to provide an all-inclusive environment that promotes diverse learning for all students and promotes academic and civic achievements, ranging from the fundamentals of fine art, music, theatre, physical education, and technology. Classes commenced in Brooklyn, New York in September 2010 and the School provided education to approximately 649 students in kindergarten through eighth grade during the 2016-2017 academic year.

The New York City Department of Education provides transportation directly to some of the School's students. Such costs are not included in these financial statements. The School provides universal free lunch to all of the School's scholars.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly actual results could differ from those estimates.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Net Asset Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment (continued)

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 - 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Line of Credit

On April 23, 2012, the School entered into an unsecured \$50,000 line of credit agreement with Capital One Bank to provide working capital. The line has no expiration date and bears interest at the Wall Street Journal Prime Rate plus 5.75%. Interest is payable on a monthly basis. There were no outstanding balances under the line of credit as of June 30, 2017 and 2016.

Deferred Rent

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statement of financial position.

Revenue and Support

Revenue from the state and local governments resulting from the School's charter status, and based on the number of students enrolled, is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Donated Services

The School recognizes contributions of services if they (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the School, and (c) are measurable. Donated services that do not meet the above criteria are not recognized. The School recognized \$0 and \$19,665 of donated services for the years ended June 30, 2017 and 2016.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment expense for the years ended June 30, 2017 and 2016 was \$90,072 and \$118,932.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by natural and functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 3, 2017.

Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements
June 30, 2017 and 2016

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year and has not provided an allowance for doubtful accounts.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$ 848,052	\$ 729,150
Furniture and fixtures	405,901	386,306
Leasehold improvements	2,139,337	2,031,923
Software	<u>81,936</u>	<u>45,436</u>
	3,475,226	3,192,815
Accumulated depreciation and amortization	<u>(1,661,317)</u>	<u>(1,292,573)</u>
	<u>\$ 1,813,909</u>	<u>\$ 1,900,242</u>

5. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 5% of the participant's annual compensation. Employee match for the years ended June 30, 2017 and 2016 amounted to \$85,880 and \$61,830.

6. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, approximately \$1,268,000 of cash was maintained with an institution in excess of FDIC limits.

7. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 93% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements
June 30, 2017 and 2016

8. Commitment

On September 1, 2010, the School entered into a non-cancelable operating lease for office and classroom space expiring on June 30, 2030, with an option to renew the lease for an additional ten years. The lease provides for rent escalations and the School is responsible for utilities, real estate taxes, and other operating expenses. The School is receiving a partial rent credit for the first 10 years of the lease. The School outlined a detailed 10 year capital improvement plan of approximately \$4,900,000 for renovation projects to both the interior and exterior of the building.

Future minimum lease payments are as follows:

Year ending June 30,	
2018	\$ 1,133,640
2019	1,133,640
2020	1,133,640
2021	1,605,186
2022	1,605,186
Thereafter	<u>13,644,081</u>
	<u>\$ 20,255,373</u>

Rent expense for the years ended June 30, 2017 and 2016 was \$1,318,556 and \$1,317,986.

9. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

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

**Board of Trustees
Bedford Stuyvesant New Beginnings Charter School**

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 Bedford Stuyvesant New Beginnings Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that was reported to the management of the School in a separate letter dated October 3, 2017.

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.

PKF O'Connor Davies, LLP

Harrison, New York
October 3, 2017