

**COMMUNITY PARTNERSHIP CHARTER SCHOOL
EDUCATION CORPORATION**

**FINANCIAL STATEMENTS
AND COMBINING SUPPLEMENTARY
INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

**COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
YEARS ENDED JUNE 30, 2018 AND 2017**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5 - 6
Statements of cash flows	7
Notes to financial statements	8 - 16
Supplementary Information	
Combining statements of activities by school location	17 - 18
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Community Partnership Charter School Education Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Community Partnership Charter School Education Corporation ("CPCSEC") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 Community Partnership Charter School Education Corporation as of June 30, 2018 and 2017, and the change in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in the combining statements of activities by school location for the years ended June 30, 2018 and 2017, on pages 17 - 18, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining information has been subjected to the auditing procedures applied in the audits 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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, on our consideration of CPCSEC'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 CPCSEC's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Melville, New York
October 29, 2018

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 560,524	\$ 1,153,323
Restricted cash	150,000	150,000
Investments	3,312,899	3,119,414
Grants receivable	485,581	313,714
Accounts, interest and other receivables	287,642	350,131
Prepaid expenses	-	11,906
Deferred rental costs, net	225,958	301,278
Property and equipment, net	<u>81,607</u>	<u>115,290</u>
TOTAL ASSETS	<u>\$ 5,104,211</u>	<u>\$ 5,515,056</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,075,146	\$ 935,490
Due to NYC Department of Education	7,654	31,679
Due to Beginning with Children Foundation	<u>415,964</u>	<u>297,681</u>
Total liabilities	<u>1,498,764</u>	<u>1,264,850</u>
Commitments and contingencies (Notes 3, 5 and 7)		
Unrestricted net assets:		
Board-designated for facility and personnel costs	1,200,000	1,200,000
Undesignated	<u>2,405,447</u>	<u>3,050,206</u>
Total unrestricted net assets	<u>3,605,447</u>	<u>4,250,206</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,104,211</u>	<u>\$ 5,515,056</u>

See accompanying notes to financial statements.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenue:		
State and local per pupil operating revenue	\$ 12,460,150	\$ 11,216,156
Government grants	<u>759,806</u>	<u>668,664</u>
Total operating revenue	<u>13,219,956</u>	<u>11,884,820</u>
Operating expenses:		
Program services:		
Regular education	10,476,841	9,458,279
Special education	<u>2,989,698</u>	<u>3,023,978</u>
Total program services	<u>13,466,539</u>	<u>12,482,257</u>
Supporting services:		
Management and general	1,141,654	790,498
Fundraising	<u>138,829</u>	<u>126,289</u>
Total supporting services	<u>1,280,483</u>	<u>916,787</u>
Total operating expenses	<u>14,747,022</u>	<u>13,399,044</u>
Deficit from government-funded school operations	<u>(1,527,066)</u>	<u>(1,514,224)</u>
Other revenue:		
Contributions and grants - private	13,042	20,199
Investment earnings	21,665	24,722
Donated space	847,600	847,600
Other income	<u>-</u>	<u>1,992</u>
Total other revenue	<u>882,307</u>	<u>894,513</u>
Change in net assets	(644,759)	(619,711)
Net assets - beginning	<u>4,250,206</u>	<u>4,869,917</u>
NET ASSETS - ENDING	<u><u>\$ 3,605,447</u></u>	<u><u>\$ 4,250,206</u></u>

See accompanying notes to financial statements.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services			Total
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel services:							
Administrative staff personnel	\$ 513,766	\$ 108,659	\$ 622,425	\$ 580,351	\$ -	\$ 580,351	\$ 1,202,776
Instructional personnel	5,281,732	1,958,791	7,240,523	-	-	-	7,240,523
Non-instructional personnel	<u>92,438</u>	<u>19,971</u>	<u>112,409</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,409</u>
Total personnel services	5,887,936	2,087,421	7,975,357	580,351	-	580,351	8,555,708
Fringe benefits and payroll taxes	1,459,479	321,191	1,780,670	90,121	-	90,121	1,870,791
Retirement	89,420	17,583	107,003	3,299	-	3,299	110,302
Central service fees	789,344	182,460	971,804	277,658	138,829	416,487	1,388,291
Legal service	630	-	630	7,032	-	7,032	7,662
Accounting and audit services	-	-	-	65,825	-	65,825	65,825
Consulting services	315,757	68,232	383,989	15,966	-	15,966	399,955
Rent and leasing costs	832,935	89,985	922,920	-	-	-	922,920
Repairs and maintenance	123,267	14,263	137,530	-	-	-	137,530
Insurance	61,842	12,543	74,385	27,225	-	27,225	101,610
Utilities	59,852	6,466	66,318	-	-	-	66,318
Supplies and materials	257,356	57,667	315,023	3,826	-	3,826	318,849
Equipment and furnishings	38,555	7,965	46,520	-	-	-	46,520
Staff development	132,647	28,565	161,212	-	-	-	161,212
Marketing and recruitment	87,015	18,908	105,923	-	-	-	105,923
Technology	42,032	8,932	50,964	3,795	-	3,795	54,759
Student services	240,522	56,985	297,507	-	-	-	297,507
Office expense	23,056	2,893	25,949	54,102	-	54,102	80,051
Depreciation	35,196	7,639	42,835	3,452	-	3,452	46,287
Other expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,002</u>	<u>-</u>	<u>9,002</u>	<u>9,002</u>
TOTAL	<u>\$10,476,841</u>	<u>\$ 2,989,698</u>	<u>\$13,466,539</u>	<u>\$ 1,141,654</u>	<u>\$ 138,829</u>	<u>\$ 1,280,483</u>	<u>\$14,747,022</u>

See accompanying notes to financial statements.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Supporting Services			Total
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel services:							
Administrative staff personnel	\$ 451,987	\$ 85,355	\$ 537,342	\$ 285,088	\$ -	\$ 285,088	\$ 822,430
Instructional personnel	4,636,795	2,184,300	6,821,095	-	-	-	6,821,095
Non-instructional personnel	<u>74,370</u>	<u>14,380</u>	<u>88,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,750</u>
Total personnel services	5,163,152	2,284,035	7,447,187	285,088	-	285,088	7,732,275
Fringe benefits and payroll taxes	1,284,372	257,546	1,541,918	60,900	-	60,900	1,602,818
Retirement	85,531	16,311	101,842	3,391	-	3,391	105,233
Central service fees	737,432	146,593	884,025	252,579	126,289	378,868	1,262,893
Legal service	-	-	-	13,826	-	13,826	13,826
Accounting and audit services	-	-	-	72,185	-	72,185	72,185
Consulting services	306,770	71,782	378,552	45,164	-	45,164	423,716
Rent and leasing costs	856,343	72,038	928,381	-	-	-	928,381
Repairs and maintenance	97,588	8,914	106,502	-	-	-	106,502
Insurance	65,572	12,758	78,330	15,415	-	15,415	93,745
Utilities	50,381	4,008	54,389	-	-	-	54,389
Supplies and materials	274,721	49,224	323,945	-	-	-	323,945
Equipment and furnishings	29,031	5,757	34,788	-	-	-	34,788
Staff development	122,723	24,844	147,567	-	-	-	147,567
Marketing and recruitment	137,754	24,847	162,601	-	-	-	162,601
Technology	30,012	5,859	35,871	5,439	-	5,439	41,310
Food service	7,252	1,385	8,637	-	-	-	8,637
Student services	128,488	24,583	153,071	62	-	62	153,133
Office expense	31,786	4,839	36,625	32,804	-	32,804	69,429
Depreciation	44,738	8,655	53,393	3,645	-	3,645	57,038
Bad debt expense	<u>4,633</u>	<u>-</u>	<u>4,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,633</u>
TOTAL	<u>\$ 9,458,279</u>	<u>\$ 3,023,978</u>	<u>\$ 12,482,257</u>	<u>\$ 790,498</u>	<u>\$ 126,289</u>	<u>\$ 916,787</u>	<u>\$ 13,399,044</u>

See accompanying notes to financial statements.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (644,759)	\$ (619,711)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized loss on investments	31,516	23,013
Amortization - rent reimbursement	75,320	75,320
Depreciation	46,287	57,038
Bad debt expense	4,467	4,633
Changes in assets and liabilities:		
Restricted cash	-	(150,000)
Grants receivable	(176,335)	(56,984)
Accounts and interest receivable	62,489	(189,661)
Prepaid expenses	11,906	(11,906)
Deferred rental costs	-	(376,598)
Accounts payable and accrued expenses	139,656	115,907
Due to (from) Beginning with Children Foundation	118,283	(25,962)
Due to (from) NYC Department of Education	<u>(24,025)</u>	<u>12,775</u>
Net cash used in operating activities	<u>(355,195)</u>	<u>(1,142,136)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(12,604)	(87,399)
Proceeds from sale of investments	1,325,000	675,000
Purchase of investments	<u>(1,550,000)</u>	<u>(450,000)</u>
Net cash provided by (used in) investing activities	<u>(237,604)</u>	<u>137,601</u>
Net decrease in cash and cash equivalents	(592,799)	(1,004,535)
Cash and cash equivalents - beginning	<u>1,153,323</u>	<u>2,157,858</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 560,524</u>	<u>\$ 1,153,323</u>

See accompanying notes to financial statements.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Principal Business Activity

Community Partnership Charter School Education Corporation is an education corporation that operates two charter schools in the borough of Brooklyn, New York.

Effective October 1, 2014, Beginning with Children Charter School 2 ("BwCCS2") merged into Community Partnership Charter School ("CPCS"), the surviving entity. Concurrent with the merger, CPCS changed its name to Community Partnership Charter School Education Corporation ("CPCSEC").

On July 1, 2014, the Board of Regents of the University of the State of New York ("SUNY") granted a fourth provisional charter to CPCS for the merger of BwCCS2 and CPCS to form CPCSEC, expiring on July 31, 2017.

On March 8, 2017 the Board of Regents of SUNY renewed the CPCSEC charter for a period of five years, expiring July 31, 2022.

CPCSEC'S mission is to provide personalized education for each student, addressing weaknesses and reinforcing strengths through individualized instruction, dynamic curriculum, ongoing assessment and parental/community engagement. CPCSEC puts the needs of the whole student first, transcending the academic rigor of the classroom and nurturing the development of children from their formative years through college.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The accompanying financial statements have been prepared on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and is presented in accordance with accounting requirements for not-for-profit organizations. These requirements provide that all not-for-profit organizations provide a statement of financial position, a statement of activities and a statement of cash flows, and that net assets be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor stipulations regarding their use.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

CPCSEC maintains cash in deposit accounts which, at times, may exceed federally insured limits. CPCSEC has not experienced any losses in these accounts. CPCSEC considers all highly liquid instruments purchased with a maturity of three months or less to be a cash equivalent.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted cash reflects \$150,000 in funds maintained in separate accounts as required by the Charter School Institute, to have funds available to ensure an orderly liquidation, dissolution or transition process if CPCSEC's charter were to be terminated or CPCSEC was closed for other reasons.

Contributions

The financial statements of CPCSEC reflect contributions received from the public and other organizations. Contributions are recognized in the accompanying statement of activities as revenue in the period in which they are received or unconditionally promised. CPCSEC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as "Net assets released from restrictions." Amounts received with donor stipulations that limit their use to certain purposes are reported as unrestricted support if the stipulated purpose restriction is accomplished in the same year.

Grants and Refundable Advances

Revenue from the state and local governments resulting from CPCSEC's charter status, which is based on the number of students enrolled, is recorded when services are performed in accordance with the charter agreement. Amounts received prior to services being rendered on behalf of students are recognized as amounts due to NYCDOE. Revenue from federal, state and local government cost reimbursement grants and contracts is recognized as revenue when qualifying expenditures are incurred. Amounts received in excess of expenditures incurred are recognized as refundable advances.

Grants, Accounts and Other Receivables

Grants, accounts and other receivables are stated at the amount management expects to collect. Management evaluates such receivables and establishes an allowance for doubtful accounts based on a history of write-offs and collections and current credit conditions. At June 30, 2018 and 2017, management determined that no allowance was required.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services and Space

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets, would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such skills.

A number of volunteers have made a contribution of their time to CPCSEC to develop academic and other programs and to serve on the board of trustees. The value of this contributed time is not reflected in the accompanying financial statements in as much as those services would not typically be purchased had they not been provided by donation.

CPCSEC was the recipient of donated space which was used for the BwCCS2 middle school campus. For each of the years ended June 30, 2018 and 2017, the value of the donated space amounted to \$847,600, and is included in "Donated space" in the accompanying statements of activities, and "Rent and leasing costs" in the accompanying statements of functional expenses.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 9 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Unrealized loss includes CPCSEC's gains and losses on investments bought and sold, as well as held, during the year.

Property and Equipment

CPCSEC capitalizes all purchases of property and equipment in excess of \$2,500 and with a useful life of greater than one year. Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Net Assets

Unrestricted net assets are net assets that are not restricted by donors or for which donor-imposed restrictions have expired. Board-designated net assets were established by the board of trustees to provide a fiscally prudent reserve for unforeseen facility, personnel and other issues. Temporarily restricted net assets are restricted by donors for a specific purpose or for a specified time period beyond the current fiscal year. At June 30, 2018 and 2017, CPCSEC had no temporarily or permanently restricted net assets.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Certain costs have been allocated among program and supporting services.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

CPCSEC is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and from state income tax. However, net income resulting from certain activities not related to CPCSEC's tax-exempt status is subject to unrelated business income tax ("UBIT"), if applicable.

CPCSEC recognizes and measures its unrecognized tax benefits in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. Under that guidance, CPCSEC assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

Management has evaluated CPCSEC's tax positions and has concluded that CPCSEC had taken no uncertain tax positions that require adjustments to the financial statements.

Recently Issued but not yet Effective Accounting Standards

Effective for the year ending June 30, 2019, CPCSEC will be required to adopt FASB Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes the presentation of not-for-profit financial statements. The new guidance reduces the number of net asset classes from three to two, increases disclosures about financial measures and liquidity risks, among other changes. The effect of adopting this new guidance on the CPCSEC's financial statements and related disclosures has not yet been determined.

Effective for the year ending June 30, 2020, CPCSEC will adopt the provisions of FASB ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which will replace the current revenue recognition guidance pertaining to contracts with customers contained in U.S. GAAP. The effect of adopting ASU 2014-09 on CPCSEC's financial statements and related disclosures has not yet been determined.

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after June 31, 2020, with early adoption permitted. The effect of adopting ASU 2016-02 on CPCSEC's financial statements and related disclosures has not yet been determined.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued but not yet Effective Accounting Standards (Continued)

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)* ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents to reconcile the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for CPCSEC beginning June 30, 2019, with early adoption permitted. The effect of adopting ASU 2016-18 on CPCSEC's financial statements and related disclosures has not yet been determined.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Under this standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CPCSEC has the ability to access.

Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CPCSEC assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in the circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers among levels during the years 2018 or 2017.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, CPCSEC has evaluated subsequent events through October 29, 2018, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 3. RELATED-PARTY TRANSACTIONS

The Beginning with Children Foundation (the "Foundation") is a not-for-profit organization dedicated to improving the educational opportunities of underserved children. The Foundation is a co-founder of CPCSEC.

Central Service Fees

As an educational manager to charter schools for the years ended June 30, 2018 and 2017, the Foundation entered into a Memorandum of Understanding ("MOU") agreement with CPCSEC. Pursuant to the terms of the MOU, CPCSEC agreed to pay service fees to the Foundation in the amount of \$1,388,291 and \$1,262,893 for the years ended June 30, 2018 and 2017, respectively. The Foundation supported CPCSEC in the areas of leadership and strategy, curriculum and assessment, research and evaluation, teacher development and recruitment, parent and family engagement, business services, compliance, development, technology, communications, board development and evaluation of effectiveness. At June 30, 2018 and 2017, \$415,964 and \$297,681, respectively, were due to the Foundation. These amounts were comprised of the remaining cost advances and net of an overpayment made to the Foundation.

Deferred Rental Costs

During the year ended June 30, 2017, the Foundation incurred certain costs on behalf of CPCSEC in connection with the renovations and other site preparations made to the BwCCS2 Middle School. On June 1, 2017, CPCSEC entered into a reimbursement agreement (the "Agreement") to repay expenses totaling \$376,598 (the "Cost Advance") to the Foundation. The Cost Advance will be paid back through five annual, non-interest bearing payments coinciding with the term of the lease (see Note 5).

Cost advance	\$	376,598
Less: cumulative payments made through June 30, 2018		<u>150,640</u>
Remaining cost advance as of June 30, 2018	\$	<u><u>225,958</u></u>

The remaining balance of \$225,958 has been included in "Deferred rental costs, net" and "Due to Beginning with Children Foundation" in the accompanying statements of financial position. Additionally, the annual repayment of \$75,320 is amortized and included in "Rent and leasing costs" in the accompanying statements of functional expenses.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Life</u>
Computer equipment	\$ 363,787	\$ 351,183	3 years
Furniture and fixtures	182,238	182,238	7 years
Leasehold improvements	<u>36,451</u>	<u>36,451</u>	5 years
	582,476	569,872	
Less: accumulated depreciation	<u>500,869</u>	<u>454,582</u>	
Property and equipment, net	<u>\$ 81,607</u>	<u>\$ 115,290</u>	

Depreciation expense amounted to \$46,287 and \$57,038 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5. SCHOOL FACILITIES

Donated Space

CPCSEC occupies space in three public schools owned by the NYCDOE located in Brooklyn, New York, which have been made available to CPCSEC at no charge.

School Facility Lease

CPCSEC is obligated under a five-year lease agreement with the Foundation, a related party, commencing July 1, 2016 and expiring June 30, 2021. The lease was for the use of school facility space for the BwCCS2 Middle School. The lease agreement contains provisions for future rent increases. In accordance with U.S. GAAP, CPCSEC records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term (straight-line basis).

Minimum annual rent amounts required under the lease at June 30, 2018, are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2019	\$ 910,000
2020	1,014,000
2021	<u>1,014,000</u>
Total	<u>\$ 2,938,000</u>

Rental Assistance

During the year, CPCSEC received \$203,711 of rental assistance reimbursement from the NYCDOE. This amount will be paid to CPCSEC and will be due to the Foundation as rental income.

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6. EMPLOYEE BENEFIT PLAN

CPCSEC maintains a defined contribution plan under Section 401(k) of the Code covering all eligible employees. Under the plan, CPCSEC provides matching contributions. In addition, CPCSEC may elect, on a discretionary basis, to contribute a percentage of all qualified employees' compensation to the profit-sharing component of the plan. The amount charged to operations for contributions to the defined contribution plan was \$110,302 and \$105,234 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7. CONTINGENCIES

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

NOTE 8. CONCENTRATIONS

Grants Receivable

As of June 30, 2018 and 2017, New York State accounted for 77% and 92% of CPCSEC's grants receivable balance, respectively.

Accounts, Interest and Other Receivable

As of June 30, 2018 and 2017, New York State accounted for 100% and 98% of CPCSEC's accounts receivable, interest and other receivable balance, respectively.

Revenue

State and local per pupil operating revenue from the New York State Education Department accounted for 93% and 88% of total operating and other revenue for the years ended June 30, 2018 and 2017, respectively.

Investments

One financial institution held 100% of CPCSEC's investments at both June 30, 2018 and 2017. These certificates of deposit are insured by the Securities Investor Protection Corporation.

NOTE 9. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

- (a) *Market approach.* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- (b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost); and
- (c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize CPCSEC's assets measured at fair value on a recurring basis, categorized by U.S. GAAP's valuation hierarchy as of June 30, 2018 and 2017.

<u>Description</u>	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at June 30, 2018	Valuation Technique
Certificates of deposit (included in investments)	\$ -	\$ 3,312,899	\$ -	\$ 3,312,899	(a)

<u>Description</u>	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at June 30, 2017	Valuation Technique
Certificates of deposit (included in investments)	\$ -	\$ 3,119,414	\$ -	\$ 3,119,414	(a)

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2018 and 2017:

The *certificates of deposit* are stated at quoted market prices.

SUPPLEMENTARY INFORMATION

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
COMBINING STATEMENT OF ACTIVITIES BY SCHOOL LOCATION
FOR THE YEAR ENDED JUNE 30, 2018

	Beginning with Children Charter School 2 - Lower School	Beginning with Children Charter School 2 - Middle School	Community Partnership Charter School - Pre-Kindergarten	Community Partnership Charter School - Lower School	Community Partnership Charter School - Middle School	Combined
Operating revenue:						
State and local per pupil operating revenue	\$ 5,128,140	\$ 738,237	\$ 191,830	\$ 3,101,585	\$ 3,300,358	\$ 12,460,150
Government grants	<u>162,177</u>	<u>24,900</u>	<u>-</u>	<u>136,272</u>	<u>436,457</u>	<u>759,806</u>
Total operating revenue	<u>5,290,317</u>	<u>763,137</u>	<u>191,830</u>	<u>3,237,857</u>	<u>3,736,815</u>	<u>13,219,956</u>
Operating expenses:						
Program services:						
Regular education	3,205,708	2,169,866	186,389	2,458,037	2,456,841	10,476,841
Special education	<u>859,354</u>	<u>361,434</u>	<u>-</u>	<u>758,925</u>	<u>1,009,985</u>	<u>2,989,698</u>
Total program services	<u>4,065,062</u>	<u>2,531,300</u>	<u>186,389</u>	<u>3,216,962</u>	<u>3,466,826</u>	<u>13,466,539</u>
Supporting services:						
Management and general	374,919	139,098	7,474	328,250	291,912	1,141,653
Fundraising	<u>57,297</u>	<u>9,686</u>	<u>-</u>	<u>38,530</u>	<u>33,317</u>	<u>138,830</u>
Total supporting services	<u>432,216</u>	<u>148,784</u>	<u>7,474</u>	<u>366,780</u>	<u>325,229</u>	<u>1,280,483</u>
Total operating expenses	<u>4,497,278</u>	<u>2,680,084</u>	<u>193,863</u>	<u>3,583,742</u>	<u>3,792,055</u>	<u>14,747,022</u>
Surplus (deficit) from government-funded school operations	<u>793,039</u>	<u>(1,916,947)</u>	<u>(2,033)</u>	<u>(345,885)</u>	<u>(55,240)</u>	<u>(1,527,066)</u>
Other revenue:						
Contributions and grants - private	10,755	-	-	2,287	-	13,042
Investment earnings	1,474	7,993	-	3,522	8,676	21,665
Contribution - rent of school facility	<u>-</u>	<u>847,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>847,600</u>
Total other revenue	<u>12,229</u>	<u>855,593</u>	<u>-</u>	<u>5,809</u>	<u>8,676</u>	<u>882,307</u>
CHANGE IN NET ASSETS	<u>\$ 805,268</u>	<u>\$ (1,061,354)</u>	<u>\$ (2,033)</u>	<u>\$ (340,076)</u>	<u>\$ (46,564)</u>	<u>\$ (644,759)</u>

See independent auditor's report

COMMUNITY PARTNERSHIP CHARTER SCHOOL EDUCATION CORPORATION
COMBINING STATEMENT OF ACTIVITIES BY SCHOOL LOCATION
FOR THE YEAR ENDED JUNE 30, 2017

	Beginning with Children Charter School 2 - Lower School	Beginning with Children Charter School 2 - Middle School	Community Partnership Charter School - Pre-Kindergarten	Community Partnership Charter School - Lower School	Community Partnership Charter School - Middle School	Combined
Operating revenue:						
State and local per pupil operating revenue	\$ 4,134,682	\$ 584,537	\$ 173,078	\$ 3,318,836	\$ 3,005,023	\$ 11,216,156
Government grants	<u>156,316</u>	<u>-</u>	<u>-</u>	<u>106,174</u>	<u>406,174</u>	<u>668,664</u>
Total operating revenue	<u>4,290,998</u>	<u>584,537</u>	<u>173,078</u>	<u>3,425,010</u>	<u>3,411,197</u>	<u>11,884,820</u>
Operating expenses:						
Program services:						
Regular education	2,568,718	1,826,648	174,666	2,479,936	2,408,311	9,458,279
Special education	<u>1,030,638</u>	<u>155,347</u>	<u>-</u>	<u>852,757</u>	<u>985,236</u>	<u>3,023,978</u>
Total program services	<u>3,599,356</u>	<u>1,981,995</u>	<u>174,666</u>	<u>3,332,693</u>	<u>3,393,547</u>	<u>12,482,257</u>
Supporting services:						
Management and general	270,224	50,712	6,500	269,270	193,792	790,498
Fundraising	<u>41,616</u>	<u>8,974</u>	<u>-</u>	<u>42,871</u>	<u>32,828</u>	<u>126,289</u>
Total supporting services	<u>311,840</u>	<u>59,686</u>	<u>6,500</u>	<u>312,141</u>	<u>226,620</u>	<u>916,787</u>
Total operating expenses	<u>3,911,196</u>	<u>2,041,681</u>	<u>181,166</u>	<u>3,644,834</u>	<u>3,620,167</u>	<u>13,399,044</u>
Surplus (deficit) from government-funded school operations	<u>379,802</u>	<u>(1,457,144)</u>	<u>(8,088)</u>	<u>(219,824)</u>	<u>(208,970)</u>	<u>(1,514,224)</u>
Other revenue:						
Contributions and grants - private	2,510	2,500	-	12,697	2,492	20,199
Investment earnings	7,545	4,816	-	7,545	4,816	24,722
Contribution - rent of school facility	-	847,600	-	-	-	847,600
Other income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,992</u>	<u>-</u>	<u>1,992</u>
Total other revenue	<u>10,055</u>	<u>854,916</u>	<u>-</u>	<u>22,234</u>	<u>7,308</u>	<u>894,513</u>
CHANGE IN NET ASSETS	<u>\$ 389,857</u>	<u>\$ (602,228)</u>	<u>\$ (8,088)</u>	<u>\$ (197,590)</u>	<u>\$ (201,662)</u>	<u>\$ (619,711)</u>

See independent auditor's report



**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***

To the Board of Trustees
Community Partnership Charter School Education Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Partnership Charter School Education Corporation ("CPCSEC") (a nonprofit organization), 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 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CPCSEC'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 CPCSEC's internal control. Accordingly, we do not express an opinion on the effectiveness of CPCSEC'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 CPCSEC'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*.

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 CPCSEC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPCSEC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CITRIN COOPERMAN & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Melville, New York
October 29, 2018