

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Brilla College Preparatory Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Brilla College Preparatory Charter Schools, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from August 29, 2016 (date of inception) to June 30, 2018, 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 Brilla College Preparatory Charter Schools as of June 30, 2018, and the changes in its net assets and its cash flows for the period from August 29, 2016 (date of inception) to June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018 on our consideration of Schools' 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 Brilla College Preparatory Charter Schools' internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 16, 2018

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 4,298,063
Grants and other receivables	498,659
Prepaid expenses and other current assets	<u>162,408</u>
TOTAL CURRENT ASSETS	4,959,130

PROPERTY AND EQUIPMENT, net

1,182,611

OTHER ASSETS

Security deposits	414,178
Cash in escrow	<u>150,152</u>
	<u>564,330</u>

TOTAL ASSETS \$ 6,706,071

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt	\$ 80,880
Accounts payable and accrued expenses	542,279
Accrued payroll and benefits	<u>391,250</u>

TOTAL CURRENT LIABILITIES 1,014,409

OTHER LIABILITIES

Long-term debt, net of unamortized debt issuance costs of \$13,476 at June 30, 2018	<u>203,181</u>
	203,181

NET ASSETS

Unrestricted	<u>5,488,481</u>
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TOTAL LIABILITIES AND NET ASSETS \$ 6,706,071

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

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue, gains and other support:			
Public school district:			
Resident student enrollment	\$ 9,495,436	\$ -	\$ 9,495,436
Students with disabilities	929,286	-	929,286
Grants and contracts:			
State and local	284,771	-	284,771
Federal - Title and IDEA	560,533	-	560,533
Federal - other	533,012	-	533,012
NYC DOE Rental Assistance	1,700,000	-	1,700,000
Net assets released from restriction	<u>45,889</u>	<u>(45,889)</u>	<u>-</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	13,548,927	(45,889)	13,503,038
Expenses:			
Program:			
Regular education	7,344,378	-	7,344,378
Special education	<u>1,868,225</u>	<u>-</u>	<u>1,868,225</u>
Total program services	9,212,603	-	9,212,603
Management and general	<u>2,833,207</u>	<u>-</u>	<u>2,833,207</u>
TOTAL OPERATING EXPENSES	12,045,810	-	12,045,810
SURPLUS FROM SCHOOL OPERATIONS	1,503,117	(45,889)	1,457,228
Support and other revenue:			
Contributions			
Foundations	800,000	-	800,000
Individuals	47,549	-	47,549
Fundraising	10,360	-	10,360
Interest income	692	-	692
Miscellaneous income	<u>92,432</u>	<u>-</u>	<u>92,432</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>951,033</u>	<u>-</u>	<u>951,033</u>
CHANGE IN NET ASSETS	2,454,150	(45,889)	2,408,261
Net assets at beginning of period	-	-	-
Transfer of net assets from merger of Brilla College Preparatory Charter School effective July 1, 2017	<u>3,034,331</u>	<u>45,889</u>	<u>3,080,220</u>
NET ASSETS AT END OF PERIOD	<u>\$ 5,488,481</u>	<u>\$ -</u>	<u>\$ 5,488,481</u>

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

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2018

	No. of Positions	Program Services			Supporting Services	Total
		Regular Education	Special Education	Sub-total	Management and general	
Personnel services costs:						
Administrative staff personnel	21	\$ 900,464	\$ 208,587	\$ 1,109,051	\$ 637,133	\$ 1,746,184
Instructional personnel	59	2,670,167	751,028	3,421,195	-	3,421,195
Total salaries and wages	80	3,570,631	959,615	4,530,246	637,133	5,167,379
Fringe benefits and payroll taxes		572,813	156,806	729,619	94,489	824,108
Retirement benefits		77,242	21,017	98,259	14,437	112,696
Legal services		-	-	-	57,809	57,809
Accounting/Audit services		-	-	-	31,600	31,600
Management company fees		-	-	-	1,188,373	1,188,373
Other Purchased/Professional/Consulting Services		560,337	140,129	700,466	205,006	905,472
Building rent		991,287	225,078	1,216,365	263,635	1,480,000
Repairs and maintenance		68,323	15,292	83,615	18,297	101,912
Insurance expense		36,422	8,483	44,905	24,904	69,809
Utilities		63,256	14,292	77,548	16,863	94,411
Supplies/Materials		340,378	73,619	413,997	-	413,997
Equipment/Furnishings		12,534	2,850	15,384	6,071	21,455
Leased equipment		28,727	6,701	35,428	7,538	42,966
Staff development		93,344	26,857	120,201	26,088	146,289
Marketing/Recruitment		64,700	14,587	79,287	2,313	81,600
Technology		87,200	20,418	107,618	23,949	131,567
Food services		5,830	1,273	7,103	-	7,103
Student services		283,630	62,183	345,813	-	345,813
Office expense		18,419	4,228	22,647	65,911	88,558
Travel and conferences		24,206	5,543	29,749	15,528	45,277
Depreciation and amortization		421,841	103,098	524,939	108,004	632,943
Other		23,258	6,156	29,414	25,259	54,673
		<u>\$ 7,344,378</u>	<u>\$ 1,868,225</u>	<u>\$ 9,212,603</u>	<u>\$ 2,833,207</u>	<u>\$ 12,045,810</u>

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

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

PERIOD FROM AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2018

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 2,408,261
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	632,943
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(498,659)
Prepaid expenses and other current assets	(162,408)
Security deposits	(414,178)
Accounts payable and accrued expenses	542,279
Accrued payroll and benefits	391,250
	<u>391,250</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	2,899,488

CASH FLOWS - INVESTING ACTIVITIES

Transfer of net assets from merger of Brilla College Preparatory Charter School effective July 1, 2017	3,080,220
Purchases of property and equipment	(1,815,554)
Change in cash in escrow	(150,152)
	<u>(150,152)</u>
NET CASH PROVIDED FROM INVESTING ACTIVITIES	1,114,514

CASH FLOWS - FINANCING ACTIVITIES

Borrowings on long-term debt, net	284,061
	<u>284,061</u>
NET CASH PROVIDED FROM FINANCING ACTIVITIES	284,061
	<u>284,061</u>
	NET INCREASE IN CASH 4,298,063
Cash at beginning of period	-
	<u>-</u>
CASH AT END OF PERIOD	\$ <u>4,298,063</u>

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

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

The Charter School

Brilla College Preparatory Charter Schools (the “Charter School”) is an educational corporation that operates as a charter school in Bronx, New York.

In August 2016, the Charter School’s Board of Trustees signed a charter agreement with the Board of Regents of the State University of New York. The charter agreement was for a school named Brilla College Preparatory Charter School at Highbridge (“Highbridge”). The charter agreement was for five years . In May 2017, the Board of Regents of the State University of New York approved an order of consolidation and extension of the provisional charter which consolidated Brilla College Preparatory Charter School into Highbridge and amended the surviving education corporation name to Brilla College Preparatory Charter Schools, effective July 1, 2017. In conjunction with this merger, effective July 1, 2017, the original Brilla College Preparatory Charter School was dissolved. The Charter will operate two charter schools, Brilla College Preparatory Charter School and Brilla College Preparatory Charter School Veritas.

The Charter School was established to provide its students in grades K-8 with traditional academic skills to develop their cognitive, social, emotional, and physical excellence.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

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

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School has no temporarily restricted net assets at June 30, 2018. At July 1, 2017, the Charter School had \$45,889 of temporarily restricted net assets transferred in as the result of the original Brilla College Preparatory Charter School merger. These assets were restricted for the purpose of staff training.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

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

Cont'd

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable or the requirements of the grant are met.

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

Contributions

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

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

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintained cash in an escrow account in accordance with the terms of its Charter agreement, to pay off expenses in the event of dissolution of the Charter School. The amount restricted as of June 30, 2018 was \$150,152.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2018.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to seven years. Leasehold improvements are amortized over the term of the lease.

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

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

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require “specialized skills” and would typically not be purchased if they were not contributed. The Charter School received transportation services, food supplies and services, speech and occupational therapy, paraprofessionals, nursing services, counseling services and metro cards for student transportation from the local district.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions received for the period August 29, 2016 (date of inception) to June 30, 2018.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income. The Charter School has filed for and received income tax exemptions in the various jurisdictions where it is required to do so.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2017 through June 30, 2018 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$81,600 for the period from August 29, 2016 (date of inception) to June 30, 2018.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Security deposits

Security deposits are made up of payments to third parties in connection with facility lease agreements.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 16, 2018, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Notes D and I.

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

NOTE B: PROPERTY AND EQUIPMENT

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

Furniture and fixtures	\$ 368,845
Computer equipment and software	604,112
Office equipment	273,252
Leasehold improvements	<u>1,958,405</u>
	3,204,614
Less accumulated depreciation and amortization	<u>2,022,003</u>
	<u>\$ 1,182,611</u>

Total depreciation and amortization expense was \$632,900 for the period from August 29, 2016 (date of inception) to June 30, 2018.

NOTE C: COMMITMENT

The Charter School has an Academic and Business Services Agreement with Seton Education Partners, Inc. (Seton). The agreement begins on July 1, 2017, and renews annually on June 30. Seton will be responsible and accountable to the Board for the administration, operations, education, and performance of the Charter School in accordance with the Charter and the Charter School's budget.

The Charter School will pay Seton ten percent of the total enrollment of students multiplied by the approved per pupil operating expenses, payable six times a year for the first three years and twelve percent thereafter. The fee for the period from August 29, 2016 (date of inception) to June 30, 2018 was approximately \$1,188,000. There was approximately \$15,000 due to Seton and approximately \$54,000 due from Seton, at June 30, 2018.

NOTE D: SCHOOL FACILITY

The Charter School subleases from Seton, approximately 52,441 square feet of classrooms and office facilities along with 1,900 square feet of play-yard under non-cancelable lease agreements expiring in June 2018. For the current location, the current monthly payment was \$91,700. In July 2018, the Charter School renewed this lease agreement with current monthly payments of \$124,500. The new agreement expires in June 2023. Rent expense was \$1,480,000 for the period ended June 30, 2018.

In November 2016, the Charter School signed an additional lease with Seton for the middle school and made an additional security deposit of \$100,000. The lease was to begin in August 2017 and go through June 2046. In July 2018, the Charter School revised this agreement. The lease will now begin on July 1, 2018. The initial monthly payment is \$49,250 and will increase each year of the lease term by the agreed upon amount as described in the lease. In July 2018, the Charter School also signed a lease agreement for additional space at this location for \$54,000 per month and it expires in June 2019.

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

NOTE D: SCHOOL FACILITY, Cont'd

The Charter School also signed a lease agreement which commences in July 2019 and expires in June 2020 for \$107,500 per month.

The Charter School signed a rental agreement in which substantial improvements must be made by the lessor before the commencement date and made a security deposit of \$300,000. If improvements have not been met, the Charter School has the right to terminate the lease. If the lessor does fulfill the obligation, commencement shall be September 2020 and expire in June 2050. The payment will increase each year of the lease by the agreed upon amount as described in the lease. Since the lease is on a contingency and the Charter School has the right to terminate, the lease is not included in the future payments.

The future minimum payments on these agreements for base rent are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 2,731,200
2020	3,968,600
2021	2,751,300
2022	2,826,000
2023	2,902,700
Thereafter	<u>41,895,300</u>
	<u>\$ 57,075,100</u>

NOTE E: OPERATING LEASES

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through October 31, 2022. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 39,192
2020	39,192
2021	39,192
2022	37,416
Thereafter	<u>4,756</u>
	<u>\$ 159,748</u>

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

NOTE F: LONG-TERM DEBT

The Charter School has a note payable with an unrelated party. Interest only payments were made through December 1, 2015 when principal repayments began. Monthly payments are \$8,044, including interest at 6% for the term of the loan, which is 6 years, through November 2021. As of June 30, 2018, the note had an outstanding principal balance of \$297,537. On the accompanying statement of financial position, this amount is presented net of unamortized debt issuance costs of \$13,476 at June 30, 2018. The note payable has certain financial and reporting covenants. At June 30, 2018, the Charter School was in compliance with these covenants.

The approximate minimum payments based on the repayment terms are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 80,900
2020	85,900
2021	91,200
2022	<u>39,600</u>
	<u>\$ 297,600</u>

NOTE G: CONCENTRATIONS

At June 30, 2018, approximately 45% of grants and contracts receivables are due from New York State relating to certain grants.

During the period from August 29, 2016 (date of inception) to June 30, 2018, approximately 72% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE H: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering all regular employees. The Charter School may make a discretionary contribution to the plan. In 2018 the board approved the Charter School to make up to a 3% match of employee contributions. The Charter School contributed approximately \$112,700 to the Plan for the period from August 29, 2016 (date of inception) to June 30, 2018.

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

NOTE I: SUBSEQUENT EVENTS

In August 2018, the New York State Education Department (NYSED) notified the Charter School that it had over-allocated \$33,331 in Title IIA funding to the Charter School for the period from August 29, 2016 (date of inception) to June 30, 2018. NYSED will reduce the Charter School's Title IIA funding for a period of up to five years to recoup the over-allocated funding. The Charter School has not accounted for this over-allocated funding as a liability as of June 30, 2018.

On October 4, 2018, the SUNY Board of Trustees' Charter School Committee approved the initial five year charters for Brilla Caritas Charter School and Brilla Pax Charter School which will open in August of 2020.

NOTE J: CONTINGENCIES

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

A contractor was injured while performing construction work at the Charter School. The Charter School is named as an active participant in the case, but is expected to be dropped from the litigation due to the landlord, Seton, and the insurance company handling the case.

All claims made against the Charter School will be vigorously defended and management believes there will be no material adverse effect on the Charter School's financial position as a result of the outcome of any outstanding legal matter.

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

NOTE K: PRIOR PERIOD INFORMATION

As stated in Note A above, in July 2017, the Board of Trustees the Charter School approved a merger of the school with Brilla College Preparatory Charter School, effective July 1, 2017. Below is a summary of the opening balances, as of July 1, 2017, of the charter school approved under this merger:

ASSETS

CURRENT ASSETS

Cash	\$ 2,638,866
Grants and other receivables	302,595
Due from related party	185,561
Prepaid expenses and other current assets	<u>169,081</u>
TOTAL CURRENT ASSETS	3,296,103

PROPERTY AND EQUIPMENT, net

1,156,821

OTHER ASSETS

Security deposits	110,438
Cash in escrow	<u>75,106</u>
	<u>185,544</u>

TOTAL ASSETS \$ 4,638,468

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt	\$ 76,181
Accounts payable and accrued expenses	294,457
Accrued payroll and benefits	193,342
Deferred revenue	494,249
Deferred lease liability	<u>220,000</u>

TOTAL CURRENT LIABILITIES 1,278,229

OTHER LIABILITIES

Long-term debt, net of unamortized debt issuance costs of \$17,518 at June 30, 2017	<u>280,019</u>
	280,019

NET ASSETS

Unrestricted	3,034,331
Temporarily restricted	<u>45,889</u>

TOTAL NET ASSETS 3,080,220

TOTAL LIABILITIES AND NET ASSETS \$ 4,638,468

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Brilla College Preparatory Charter Schools

We have audited the financial statements of Brilla College Preparatory Charter Schools as of and for the period from August 29, 2016 (date of inception) to June 30, 2018, and have issued our reports thereon dated October 16, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 for the period from August 29, 2016 (date of inception) to June 30, 2018, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 16, 2018

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

PERIOD FROM AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2018

	<u>Brilla College Preparatory</u>	<u>Veritas</u>	<u>Total</u>
Revenue, gains and other support:			
Public school district			
Resident student enrollment	\$ 7,788,378	\$ 1,707,058	\$ 9,495,436
Students with disabilities	807,311	121,975	929,286
Grants and contracts:			
State and local	37,442	247,329	284,771
Federal - Title and IDEA	451,461	109,072	560,533
Federal - other	35,500	497,512	533,012
NYC DOE Rental Assistance	<u>1,330,000</u>	<u>370,000</u>	<u>1,700,000</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	10,450,092	3,052,946	13,503,038
Expenses:			
Program:			
Regular education	5,700,230	1,644,148	7,344,378
Special education	<u>1,591,432</u>	<u>276,793</u>	<u>1,868,225</u>
TOTAL PROGRAM EXPENSES	7,291,662	1,920,941	9,212,603
Management and general	<u>2,077,923</u>	<u>755,284</u>	<u>2,833,207</u>
TOTAL OPERATING EXPENSES	<u>9,369,585</u>	<u>2,676,225</u>	<u>12,045,810</u>
SURPLUS FROM SCHOOL OPERATIONS	1,080,507	376,721	1,457,228
Support and other revenue:			
Contributions			
Foundations	472,225	327,775	800,000
Individuals	47,549	-	47,549
Fundraising	9,110	1,250	10,360
Interest income	368	324	692
Miscellaneous income	<u>66,439</u>	<u>25,993</u>	<u>92,432</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>595,691</u>	<u>355,342</u>	<u>951,033</u>
CHANGE IN NET ASSETS	1,676,198	732,063	2,408,261
Net assets at beginning of period	-	-	-
Transfer of net assets from merger of Brilla College Preparatory Charter School effective July 1, 2017	<u>3,080,220</u>	<u>-</u>	<u>3,080,220</u>
NET ASSETS AT END OF PERIOD	<u>\$ 4,756,418</u>	<u>\$ 732,063</u>	<u>\$ 5,488,481</u>

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

PERIOD FROM AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2018

	Brilla College Preparatory						
	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Sub-total	Management and general	Sub-total	
Personnel Services Costs:							
Administrative staff personnel	17	\$ 717,759	\$ 179,136	\$ 896,895	\$ 385,675	\$ 385,675	\$ 1,282,570
Instructional personnel	47	2,127,573	657,709	2,785,282	-	-	2,785,282
Total salaries and wages	64	2,845,332	836,845	3,682,177	385,675	385,675	4,067,852
Fringe benefits and payroll taxes		479,375	140,990	620,365	64,978	64,978	685,343
Retirement benefits		63,623	18,712	82,335	8,624	8,624	90,959
Legal services		-	-	-	14,904	14,904	14,904
Accounting/Audit services		-	-	-	23,993	23,993	23,993
Management company fees		-	-	-	1,009,503	1,009,503	1,009,503
Other Purchased/Professional/Consulting Services		389,847	110,037	499,884	131,236	131,236	631,120
Building rent		738,697	184,362	923,059	186,942	186,942	1,110,001
Repairs and maintenance		48,414	12,083	60,497	12,252	12,252	72,749
Insurance expense		29,554	7,376	36,930	7,376	7,376	44,306
Utilities		46,342	11,566	57,908	11,728	11,728	69,636
Supplies/Materials		208,933	52,145	261,078	-	-	261,078
Equipment/Furnishings		9,390	2,343	11,733	2,376	2,376	14,109
Leased equipment		23,418	5,845	29,263	5,926	5,926	35,189
Staff development		62,805	19,900	82,705	15,894	15,894	98,599
Marketing/Recruitment		45,744	11,417	57,161	1,706	1,706	58,867
Technology		71,986	17,966	89,952	18,218	18,218	108,170
Food services		3,767	940	4,707	-	-	4,707
Student services		186,257	46,485	232,742	-	-	232,742
Office expense		14,253	3,557	17,810	48,604	48,604	66,414
Travel and conferences		18,572	4,635	23,207	4,700	4,700	27,907
Depreciation and amortization		397,128	99,114	496,242	100,501	100,501	596,743
Other		16,793	5,114	21,907	22,787	22,787	44,694
		<u>\$ 5,700,230</u>	<u>\$ 1,591,432</u>	<u>\$ 7,291,662</u>	<u>\$ 2,077,923</u>	<u>\$ 2,077,923</u>	<u>\$ 9,369,585</u>

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

PERIOD FROM AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2018

	Veritas						
	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Sub-total	Management and general	Sub-total	
Personnel Services Costs:							
Administrative staff personnel	4	\$ 182,705	\$ 29,451	\$ 212,156	\$ 251,458	\$ 251,458	\$ 463,614
Instructional personnel	<u>12</u>	<u>542,594</u>	<u>93,319</u>	<u>635,913</u>	-	-	<u>635,913</u>
Total salaries and wages	16	725,299	122,770	848,069	251,458	251,458	1,099,527
Fringe benefits and payroll taxes		93,438	15,816	109,254	29,511	29,511	138,765
Retirement benefits		13,619	2,305	15,924	5,813	5,813	21,737
Legal services		-	-	-	42,905	42,905	42,905
Accounting/Audit services		-	-	-	7,607	7,607	7,607
Management company fees		-	-	-	178,870	178,870	178,870
Other Purchased/Professional/Consulting Services		170,490	30,092	200,582	73,770	73,770	274,352
Building rent		252,590	40,716	293,306	76,693	76,693	369,999
Repairs and maintenance		19,909	3,209	23,118	6,045	6,045	29,163
Insurance expense		6,868	1,107	7,975	17,528	17,528	25,503
Utilities		16,914	2,726	19,640	5,135	5,135	24,775
Supplies/Materials		131,445	21,474	152,919	-	-	152,919
Equipment/Furnishings		3,144	507	3,651	3,695	3,695	7,346
Leased equipment		5,309	856	6,165	1,612	1,612	7,777
Staff development		30,539	6,957	37,496	10,194	10,194	47,690
Marketing/Recruitment		18,956	3,170	22,126	607	607	22,733
Technology		15,214	2,452	17,666	5,731	5,731	23,397
Food services		2,063	333	2,396	-	-	2,396
Student services		97,373	15,698	113,071	-	-	113,071
Office expense		4,166	671	4,837	17,307	17,307	22,144
Travel and conferences		5,634	908	6,542	10,828	10,828	17,370
Depreciation and amortization		24,713	3,984	28,697	7,503	7,503	36,200
Other		6,465	1,042	7,507	2,472	2,472	9,979
		<u>\$ 1,644,148</u>	<u>\$ 276,793</u>	<u>\$ 1,920,941</u>	<u>\$ 755,284</u>	<u>\$ 755,284</u>	<u>\$ 2,676,225</u>

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2018 AND THE PERIOD FROM
AUGUST 29, 2016 (DATE OF INCEPTION) TO JUNE 30, 2017

	Year ended June 30, 2018	Period from August 29, 2016 (date of inception) to June 30, 2017	Total
Revenue, gains and other support:			
Public school district:			
Resident student enrollment	\$ 9,495,436	\$ -	\$ 9,495,436
Students with disabilities	929,286	-	929,286
Grants and contracts:			
State and local	284,771	-	284,771
Federal - Title and IDEA	560,533	-	560,533
Federal - other	253,706	279,306	533,012
NYC DOE Rental Assistance	<u>1,700,000</u>	-	<u>1,700,000</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	13,223,732	279,306	13,503,038
Personnel services costs:			
Administrative staff personnel	1,588,515	157,669	1,746,184
Instructional personnel	<u>3,421,195</u>	-	<u>3,421,195</u>
Total salaries and staff	5,009,710	157,669	5,167,379
Fringe benefits and payroll taxes	806,680	17,428	824,108
Retirement benefits	108,644	4,052	112,696
Legal services	38,658	19,151	57,809
Accounting/Audit services	31,600	-	31,600
Management company fees	1,188,373	-	1,188,373
Other Purchased/Professional/Consulting Services	870,241	35,231	905,472
Building rent	1,480,000	-	1,480,000
Repairs and maintenance	101,912	-	101,912
Insurance	54,336	15,473	69,809
Utilities	94,411	-	94,411
Supplies/Materials	391,969	22,028	413,997
Equipment/Furnishings	18,715	2,740	21,455
Leased equipment	42,966	-	42,966
Staff development	145,367	922	146,289
Marketing/Recruitment	72,824	8,776	81,600
Technology	130,455	1,112	131,567
Food service	7,103	-	7,103
Student services	345,641	172	345,813
Office expense	87,851	707	88,558
Travel and conferences	36,160	9,117	45,277
Depreciation and amortization	632,943	-	632,943
Other	<u>53,823</u>	<u>850</u>	<u>54,673</u>
TOTAL OPERATING EXPENSES	<u>11,750,382</u>	<u>295,428</u>	<u>12,045,810</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	1,473,350	(16,122)	1,457,228
Support and other revenue:			
Contributions			
Foundations	800,000	-	800,000
Individuals	47,549	-	47,549
Fundraising	10,360	-	10,360
Interest income	368	324	692
Miscellaneous income	<u>92,432</u>	-	<u>92,432</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>950,709</u>	<u>324</u>	<u>951,033</u>
CHANGE IN NET ASSETS	<u>\$ 2,424,059</u>	<u>\$ (15,798)</u>	<u>\$ 2,408,261</u>

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Trustees
Brilla College Preparatory Charter Schools

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 Brilla College Preparatory Charter Schools, which comprise the statement of financial position for the period from August 29, 2016 (date of inception) to June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period then ended, and the related notes to the financial statements and have issued our report thereon dated October 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brilla College Preparatory Charter Schools' 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 Brilla College Preparatory Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Brilla College Preparatory Charter Schools' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brilla College Preparatory Charter Schools' 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 16, 2018

BRILLA COLLEGE PREPARATORY CHARTER SCHOOLS

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 16, 2018

Finance Committee
Brilla College Preparatory Charter Schools

We have audited the financial statements of Brilla College Preparatory Charter Schools as of and for the period from August 29, 2016 (date of inception) to June 30, 2018, and have issued our report thereon dated October 16, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 10, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and *Governmental Auditing Standards*. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Brilla College Preparatory Charter Schools solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Brilla College Preparatory Charter Schools is included in Note A to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were the collectability of grants receivable, as well as the allocation of costs for the statement of functional expenses. We evaluated key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Brilla College Preparatory Charter Schools' financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements. In addition, none of the misstatements identified by us as a result of our audit procedures and corrected by management were material either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Brilla College Preparatory Charter Schools' financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Brilla College Preparatory Charter Schools, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Should you desire further information concerning these matters, Shelby Stenson or Kate Welc will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee, and management of Brilla College Preparatory Charter Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP