



**The Brooklyn
Charter School**
BUILDING BRIDGES TO TOMORROW

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

June 30, 2018

BROOKLYN CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Brooklyn Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the Brooklyn Charter School ("the School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

As more fully described in Note 1 to the financial statements, the School is the sole member of another not-for-profit organization, The Wedding Garden, Inc. ("WG"). WG is being accounted for on the equity method of accounting. Accounting principles generally accepted in the United States of America requires the consolidation of this other entity and an elimination of intercompany transactions.

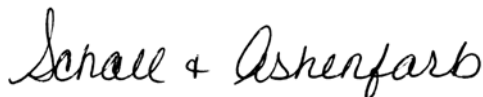
In our opinion, except for the effects of the departure of the accounting principle discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Brooklyn Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 26, 2018

BROOKLYN CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2018
(With comparative totals at June 30, 2017)

	6/30/18	6/30/17*
Assets		
Cash and cash equivalents	\$285,010	\$71,535
Investments (Note 3)	1,831,462	2,475,049
Accounts Receivable - New York City Department of Education (Note 4)	13,418	0
Government grants receivable	68,636	176,874
Contributions receivable	0	60,155
Prepaid expenses and other receivables	23,554	84,008
Employee loans receivable (Note 5)	15,767	24,442
Restricted cash (Note 6)	70,000	70,000
Investment in The Wedding Garden, Inc.	0	96,252
Fixed assets, net (Note 7)	68,686	95,698
Total assets	\$2,376,533	\$3,154,013
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$617,969	\$593,256
Advance payable - New York City Department of Education (Note 4)	0	5,064
Total liabilities	617,969	598,320
Net assets:		
Unrestricted	1,338,586	2,158,780
Temporarily restricted (Note 8)	53,311	30,246
Permanently restricted (Note 9)	366,667	366,667
Total net assets	1,758,564	2,555,693
Total liabilities and net assets	\$2,376,533	\$3,154,013

* Restated (see note 13)

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

**BROOKLYN CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**
(With comparative totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 6/30/18	Total 6/30/17
Public support and revenue:					
Public school district: (Note 5)					
Revenue - resident student enrollment	\$2,835,380			\$2,835,380	\$3,274,252
Revenue - students with special education services	169,925			169,925	210,751
Total public school district	3,005,305	0	0	3,005,305	3,485,003
Government grants	214,183			214,183	215,560
Contributions	60,182	30,000		90,182	60,240
In-kind contributions	876,100			876,100	708,640
Interest and dividends	48,820	6,545		55,365	73,976
Other income	45,383			45,383	575
Net assets released from restrictions (Note 8)	22,054	(22,054)		0	0
Total public support and revenue	4,272,027	14,491	0	4,286,518	4,543,994
Expenses:					
Program services:					
Instructional support	4,146,969			4,146,969	3,761,171
Supporting services:					
Management and general	898,318			898,318	1,003,879
Total expenses	5,045,287	0	0	5,045,287	4,765,050
Change in net assets from operations	(773,260)	14,491		(758,769)	(221,056)
Non operating activity:					
(Decrease)/increase of investment in The Wedding Garden, Inc. (Note 1)	(96,252)			(96,252)	202,874
Net realized and unrealized gain on investments	49,318	8,574		57,892	157,057
Change in net assets	(820,194)	23,065	0	(797,129)	138,875
Net assets - beginning of year, as originally stated	2,158,780	30,246	\$366,667	2,555,693	2,580,074
Prior period adjustment (Note 13)					(163,256)
Net assets - beginning of year, as restated	2,158,780	30,246	366,667	2,555,693	2,416,818
Net assets - end of year	\$1,338,586	\$53,311	\$366,667	\$1,758,564	\$2,555,693

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

BROOKLYN CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With comparative totals for the year ended June 30, 2017)

	<u>Program Services</u>	<u>Supporting Services</u>	Total	Total
	Instructional Support	Management and General	Expenses 6/30/18	Expenses 6/30/17
Salaries	\$2,373,873	\$487,709	\$2,861,582	\$2,831,238
Payroll taxes and employee benefits	616,624	126,684	743,308	611,419
Retirement	61,393	12,613	74,006	72,779
Total personnel costs	<u>3,051,890</u>	<u>627,006</u>	<u>3,678,896</u>	<u>3,515,436</u>
Professional development	25,145		25,145	44,535
Legal			0	7,015
Professional fees	22,320	57,570	79,890	97,643
Student and staff recruitment		21,164	21,164	36,881
Supplies and materials	110,110		110,110	116,068
Office expense	11,158	2,292	13,450	23,646
Student services	77,601		77,601	71,506
Insurance	76,118	15,638	91,756	49,169
Technology	8,800	1,808	10,608	10,758
Repairs and maintenance			0	5,700
Occupancy and facility costs (in-kind)	726,783	149,317	876,100	708,640
Depreciation	26,116	5,365	31,481	37,181
Board expenses		15,912	15,912	20,463
Other	10,928	2,246	13,174	20,409
Total other than personnel costs	<u>1,095,079</u>	<u>271,312</u>	<u>1,366,391</u>	<u>1,249,614</u>
Total expenses	<u><u>\$4,146,969</u></u>	<u><u>\$898,318</u></u>	<u><u>\$5,045,287</u></u>	<u><u>\$4,765,050</u></u>

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are an integral part of these financial statements.*

BROOKLYN CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With comparative totals for the year ended June 30, 2017)

	<u>6/30/18</u>	<u>6/30/17</u>
Cash flows from operating activities:		
Change in net assets	(\$797,129)	\$138,875
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Realized and unrealized gain on investments	(57,892)	(157,057)
Decrease/(increase) of investment in The Wedding Garden, Inc.	96,252	(202,874)
Depreciation expense	31,481	37,181
Changes in assets and liabilities:		
Grant receivable - New York City Department of Education	(13,418)	0
Government grants receivable	108,238	(40,256)
Contributions receivable	60,155	(40,155)
Prepaid expenses and other receivables	60,454	(34,731)
Employee loans receivable	8,675	9,722
Accounts payable and accrued expenses	24,713	(163,894)
Advance payable - New York City Department of Education	(5,064)	4,371
Total adjustments	<u>313,594</u>	<u>(587,693)</u>
Net cash used for operating activities	<u>(483,535)</u>	<u>(448,818)</u>
 Cash flows from investing activities:		
Purchase of furniture and equipment	(4,469)	(19,333)
Purchase of investments	(73,521)	(962,029)
Proceeds from sales of investments	775,000	1,274,855
Net cash received from The Wedding Garden, Inc.	0	200,000
Net cash provided by investing activities	<u>697,010</u>	<u>493,493</u>
 Net increase in cash and cash equivalents	213,475	44,675
 Cash and cash equivalents - beginning of year	<u>71,535</u>	<u>26,860</u>
 Cash and cash equivalents - end of year	<u><u>\$285,010</u></u>	<u><u>\$71,535</u></u>
 Supplemental disclosures:		
Interest and taxes paid	<u><u>\$0</u></u>	<u><u>\$0</u></u>

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

BROOKLYN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Organization and Nature of Activities

Brooklyn Charter School (“the School”), located in Brooklyn, New York, is a not-for-profit education corporation chartered by the Board of Regents of the State of New York. The School provides a full range of educational services appropriate for grade levels K, 1, 2, 3, 4 and 5. The School completed the 2017-2018 fiscal year with an average enrollment of approximately 195 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education (“NYCDOE”).

On June 21, 2011, the Board of Regents of the State of New York, for and on behalf of the State Education Department, extended the provisional charter up through and including June 30, 2016. On February 24, 2016, the Board of Regents granted an extension of the Charter up through and including June 30, 2019.

The School has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation.

The School is the sole member of The Wedding Garden, Inc. (“WG”), an organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. To satisfy requirements of NYCDOE to report financial information on activity of charter school separate from non-operating activity, the School has elected to treat its sole membership as an investment under the equity method, which differs from accounting principles generally accepted in the United States of America (“U.S. GAAP”). Under U.S. GAAP, organizations are required to consolidate financial statements of both entities and to eliminate intercompany transactions. Subsequent to year-end WG has taken initial steps to liquidate itself, therefore the investment is not considered to have any value as of June 30, 2018. The statement of activities reflects a write-off of this investment.

Note 2 - Significant Accounting Policies

a. Basis of Presentation

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

The School’s net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use.
- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. Temporarily restricted contributions and grants, the

requirements of which are met in the year of donation, are reported as unrestricted.

- *Permanently restricted* – represents activity restricted by donors that must remain intact in perpetuity.

b. Revenue Recognition

Public school district revenue is recognized based on rates established by the School's funding source and the amount realizable on the accrual basis in the period during which services are provided.

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

Contributions are recorded as revenue at the earlier of the receipt of cash or when pledges are considered unconditional in nature. Contributions are available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded in one of the restricted classes of net assets, depending on the nature of the restriction.

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

c. Cash and Cash Equivalents

Checking and money market accounts with local banks and highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Cash maintained in escrow per requirements of NYCDOE are treated as restricted cash.

d. Investments

Investments are recorded at fair value, which refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recognized in the statement of activities.

e. Fixed Assets

Fixed assets are stated at cost or fair value at the date of the gift, if donated. The School capitalizes fixed assets in excess of pre-defined amounts that have a useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset, which generally ranges between 5 and 7 years.

f. Contributed Space

The School's operations are located in a facility provided by NYCDOE at a charge of \$1.00 per annum and utilizes approximately 13,750 square feet. As such, the School has recorded the estimated fair value of this space as revenue and expense in the financial statements.

- g. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- h. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- i. Summarized Comparative Information
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.
- j. Accounting for Uncertainty in Income Taxes
The School does not believe its financial statements include any material, uncertain tax positions. Tax returns for periods ending June 30, 2015 and later are subject to examination by applicable taxing authorities.
- k. New Accounting Pronouncement
The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the June 30, 2019 year, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. In addition, under the ASU, not-for-profits will no longer be able to imply a time restriction over donor-restricted contributions of fixed assets.

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

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

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

i. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 26, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date, through our evaluation date, that would require adjustment to or disclosure in the financial statements.

Note 3 - Investments

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the School has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investment balances consist of the following:

	<u>June 30, 2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$32,734	\$32,734	\$0	\$0
Equity mutual funds:				
U.S. large cap	556,023	556,023	0	0
EAFE equity	308,079	308,079	0	0
Japanese large cap	28,228	28,228	0	0
Global equity	73,795	73,795	0	0
Fixed income mutual funds:				
U.S. fixed income	727,701	727,701	0	0
Non-U.S. fixed income	<u>104,902</u>	<u>104,902</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,831,462</u>	<u>\$1,831,462</u>	<u>\$0</u>	<u>\$0</u>

	June 30, 2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$104,669	\$104,669	\$0	\$0
Equity mutual funds:				
U.S. large cap	459,913	459,913	0	0
EEFE equity	247,805	247,805	0	0
Japanese large cap	14,335	14,335	0	0
Global equity	74,365	74,365	0	0
Fixed income mutual funds:				
U.S. fixed income	1,378,477	1,378,477	0	0
Non-U.S. fixed income	167,753	167,753	0	0
Global fixed income	<u>27,732</u>	<u>27,732</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,475,049</u>	<u>\$2,475,049</u>	<u>\$0</u>	<u>\$0</u>

Level 1 securities are valued at the closing price reported on the active market that they are traded on.

These methods produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

Note 4 - Receivable/Advance Payable – New York City Department of Education

	<u>6/30/18</u>	<u>6/30/17</u>
Beginning receivable/(advance payable)	(\$5,064)	(\$693)
Payments recovered	5,064	693
Funding based on allowable FTE's	3,005,305	3,485,003
Cash receipts	<u>(2,991,887)</u>	<u>(3,490,067)</u>
Ending receivable/(advance payable)	<u>\$13,418</u>	<u>(\$5,064)</u>

Note 5 - Employee Loans Receivable

In November 2014, the School entered into a loan agreement with an employee for the tuition costs of a math leadership program. The loan balance may be forgiven by the School under certain conditions at various intervals through June 30, 2019.

In June 2018, the School provided a loan to another employee in the form of a staff advance. This loan is set to be repaid in 26 installments, which corresponds to one full year of salary deductions.

Note 6 - Restricted Cash

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

Note 7 - Fixed Assets

Fixed assets consist of the following:

	<u>6/30/18</u>	<u>6/30/17</u>
Furniture and equipment	\$551,187	\$546,718
Less: accumulated depreciation	<u>(482,501)</u>	<u>(451,020)</u>
Furniture and equipment, net	<u>\$68,686</u>	<u>\$95,698</u>

Note 8 - Temporarily Restricted Net Assets

The following summarizes the activity of temporarily restricted net assets:

	<u>June 30, 2018</u>			
	Beginning Balance <u>7/1/17</u>	<u>Increases</u>	Released from <u>Restrictions</u>	Ending Balance <u>6/30/18</u>
W.E.A.L.T.H.Y. Program	\$0	\$30,000	(\$22,054)	\$7,946
Endowment funds (See Note 9)	<u>30,246</u>	<u>15,119</u>	<u>0</u>	<u>45,365</u>
Total	<u>\$30,246</u>	<u>\$45,119</u>	<u>(\$22,054)</u>	<u>\$53,311</u>
	<u>June 30, 2017</u>			
	Beginning Balance <u>7/1/16</u>	<u>Increases</u>	Released from <u>Restrictions</u>	Ending Balance <u>6/30/17</u>
Endowment funds (See Note 9)	<u>\$0</u>	<u>\$30,246</u>	<u>\$0</u>	<u>\$30,246</u>

Note 9 - Permanently Restricted Net Assets

Included in permanently restricted net assets is a contribution from a related entity, Sheltering Arms Children's Service ("SACS"). Pursuant to its plan of dissolution and distribution of assets, which was approved by the Supreme Court of the State of New York, the School was required to establish a permanently restricted endowment.

Interpretation of Relevant Law

The School follows New York Prudent Management of Institutional Funds Act ("NYPMIFA"), which the board of directors has interpreted to require certain amounts to be retained permanently. Absent explicit donor stipulations to the contrary, the fair value of the original gift as of the gift date for all donor-restricted endowment funds will be preserved. However, under certain circumstances, the School has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by NYPMIFA.

As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Absent any specific donor-stipulations, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School.

Spending Policies

In accordance with NYPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the School's mission and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources available;
- (7) The investment policies;
- (8) Where appropriate and circumstances would otherwise warrant alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have.

During the years ended June 30, 2018 and 2017, the board made no appropriations from the endowment.

Endowment Investment Policies

Endowment assets were pooled with other investments until the School adopts an investment policy.

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires to be retained as a fund of perpetual duration. There were no such deficiencies at June 30, 2018 and 2017.

Changes in endowment net assets can be summarized as follows:

	<u>June 30, 2018</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$30,246	\$366,667	\$396,913
Investment income	6,545	0	6,545
Net realized/unrealized gain	<u>8,574</u>	<u>0</u>	<u>8,574</u>
Endowment net assets, end of year	<u>\$45,365</u>	<u>\$366,667</u>	<u>\$412,032</u>
	<u>June 30, 2017</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$0	\$366,667	\$366,667
Investment income	8,578	0	8,578
Net realized/unrealized gain	<u>21,668</u>	<u>0</u>	<u>21,668</u>
Endowment net assets, end of year	<u>\$30,246</u>	<u>\$366,667</u>	<u>\$396,913</u>

Note 10 - Retirement Plan

The School sponsors a 401(k) profit sharing plan. Employees at least 21 years old are eligible to participate. The School's contributions are determined annually, on a discretionary basis, which was 4% through the years ended June 30, 2018 and 2017. The total amount of employer contributions was \$74,006 and \$72,779 for 2018 and 2017, respectively.

Note 11 - Commitments and Contingencies

On July 1, 2005, the School and NYCDOE signed a facility shared use agreement for the use of certain dedicated space within a New York City public school. The agreement has been renewed on a year-to-year basis. NYCDOE provides various operating services to the School including utilities, custodial and maintenance services, and charges a user fee of \$1.00 per annum. See Note 2g for contributed space disclosure.

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

In the normal course of business, the School is involved in proceedings, lawsuits and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2018 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

Note 12 - Significant Concentrations

Financial instruments, which potentially subject the School to concentration of credit risk, consist of cash, money market accounts and investment securities. The School places its temporary cash and money market accounts with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end, there were no significant uninsured balances. The market value of investments is subject to fluctuation; however, management believes the investment policy is prudent for the long-term welfare of the School.

The School is dependent upon grants from NYCDOE to carry out its operations. Revenue from NYCDOE was 70% and 77% of the School's total public support and revenue in 2018 and 2017, respectively.

Note 13 - Prior Period Adjustment

A prior period adjustment was made to decrease the opening net assets as stated at July 1, 2016 to correct an error in a prior year related to accrued salary and related salary expenses of \$163,256.

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

To the Board of Trustees of
Brooklyn Charter School

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Brooklyn Charter School (“the School”), which comprise the statement of financial position as of June 30, 2018, 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 26, 2018.

Internal Control over Financial Reporting

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

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

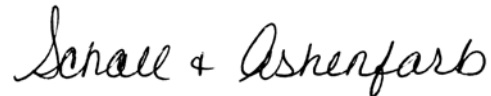
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did, however, identify a deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 26, 2018

**BROOKLYN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

Current Year:

2018-001 – Prior Period Adjustment

Criteria: The School is responsible for maintaining the books and prepare the financial statements so that they are in accordance with Generally Accepted Accounting Principles.

Condition: The auditor proposed a material prior period adjustment related to salary accrual.

Cause: The accounting department did not correctly reconcile account analysis on a timely basis.

Effect: A prior period adjustment was required in order to accurately record the accrual.

Recommendation: We recommend that the School implement a process to prepare account analysis on a monthly or quarterly basis and prepare all adjustments prior to the beginning of the audit.

Management response: See management corrective action plan attached.

Prior Year Follow-Up:

None



Joanne Hunt
Principal

Mary Kate Boesch
Assistant Principal

October 29, 2018

Management Response Letter

Corrective Action Plan for Brooklyn Charter School

Significant Adjustment Finding #2018-001

A prior period adjustment was required to reduce the net asset balance and increase the salary accrual to correct a prior period error. We recommend that a reconciliation of salary expense to the recorded amount in the books be made to ensure that salaries are recorded to correct account and period.

School Response

On August 27, 2018, Brooklyn Charter School hired a new full time School Finance Manager to handle the day-to-day accounting of the school. As a part of her new role, she will prepare ongoing account analysis and make adjustments directly to the books to ensure the accuracy of financial statements.

Respectfully submitted,

Joanne Hunt

Principal

Brooklyn Charter School