

**Brooklyn Emerging Leaders Academy
Charter School**

**Audited Financial Statements in Accordance
With Government Auditing Standards
June 30, 2018**

BROOKLYN EMERGING LEADERS ACADEMY CHARTER SCHOOL

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Independent Auditor's Report

To the Board of Trustees of
Brooklyn Emerging Leaders Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Emerging Leaders Academy Charter School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows from inception through 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 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.

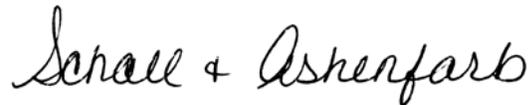
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Emerging Leaders Academy Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the period from inception through June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 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 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 the School's internal control over financial reporting and compliance.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 16, 2018

**BROOKLYN EMERGING LEADERS ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018**

Assets

Cash and cash equivalents	\$160,724
Restricted cash (Note 3)	25,000
Grants receivable - New York City (Note 4)	6,723
Government grants receivable	35,913
Prepaid expenses and other assets	3,000
Fixed assets (Note 5)	<u>140,871</u>
 Total assets	 <u><u>\$372,231</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	<u>123,540</u>
 Net assets:	
Unrestricted	<u>248,691</u>
 Total liabilities and net assets	 <u><u>\$372,231</u></u>

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

**BROOKLYN EMERGING LEADERS ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FROM INCEPTION THROUGH JUNE 30, 2018**

Unrestricted:	
Public support and revenue:	
Public school district: (Note 4)	
Revenue - resident student enrollment	\$887,948
Revenue - students with disabilities	153,055
Total public school district revenue	<u>1,041,003</u>
Government grants - other	882,287
Contributions	793,397
Other income	2,674
Total revenue and public support	<u><u>2,719,361</u></u>
Expenses:	
Program services	
Regular education	1,404,790
Special education	457,262
Total program services	<u>1,862,052</u>
Supporting services:	
Management and general	587,305
Fundraising	21,313
Total expenses	<u>2,470,670</u>
Change in net assets	248,691
Net assets - beginning	<u>0</u>
Net assets - ending	<u><u>\$248,691</u></u>

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

**BROOKLYN EMERGING LEADERS ACADEMY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FROM INCEPTION THROUGH JUNE 30, 2018**

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$857,714	\$272,347	\$1,130,061	\$222,809	\$17,793	\$1,370,663
Payroll taxes and benefits	169,658	53,871	223,529	44,071	3,520	271,120
Total personnel costs	1,027,372	326,218	1,353,590	266,880	21,313	1,641,783
Professional fees	3,911	12,441	16,352	191,228		207,580
Curriculum & classroom expenses	93,972	29,840	123,812			123,812
Food services	99,704	31,659	131,363			131,363
Facilities expense	33,197	10,541	43,738			43,738
Equipment	2,231	709	2,940	44,129		47,069
Office expenses	15,818	5,023	20,841	64,365		85,206
Professional development	36,291	11,523	47,814	9,084		56,898
Insurance	16,898	5,366	22,264	3,929		26,193
Recruitment	38,210	12,133	50,343			50,343
Other expenses	5,614	1,783	7,397	7,690		15,087
Depreciation	31,572	10,026	41,598			41,598
Total expenses	\$1,404,790	\$457,262	\$1,862,052	\$587,305	\$21,313	\$2,470,670

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

**BROOKLYN EMERGING LEADERS ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FROM INCEPTION THROUGH JUNE 30, 2018**

Cash flows from operating activities:	
Change in net assets	\$248,691
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	41,598
Changes in assets and liabilities:	
Restricted cash	(25,000)
Grants receivable - New York City	(6,723)
Government grants receivable	(35,913)
Prepaid expenses	(3,000)
Accounts payable and accrued expenses	123,540
Total adjustments	<u>94,502</u>
Net cash flows provided by operating activities	<u>343,193</u>
Cash flows from investing activities:	
Purchases of furniture and equipment	<u>(182,469)</u>
Net cash used for investing activities	<u>(182,469)</u>
Cash flows from financing activities:	
Loan proceeds	30,000
Loan repayment	<u>(30,000)</u>
Net cash provided by financing activities	<u>0</u>
Net increase in cash and cash equivalents	160,724
Cash and cash equivalents - beginning	<u>0</u>
Cash and cash equivalents - ending	<u><u>\$160,724</u></u>
Supplemental disclosures:	
Interest paid	<u>\$357</u>
Taxes paid	<u>\$0</u>

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

BROOKLYN EMERGING LEADERS ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Organization

Brooklyn Emerging Leaders Academy 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 high school. The School completed the 2017-2018 fiscal year with an average enrollment of approximately 60 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"). On October 11, 2016, the School was granted a provisional charter for a term up to and including June 30, 2021.

The School has been notified by the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Presentation

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

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 for a specific purpose or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted. The School did not have any temporary restricted net assets at June 30, 2018.
- *Permanently restricted* – represents activity restricted by donors that must remain intact in perpetuity. The School did not have any permanently restricted net assets at June 30, 2018.

b. Cash and Cash Equivalents

The School considers all liquid investments purchased with a maturity of three months or less to be cash and cash equivalents.

c. Concentration of Credit

Financial instruments, which potentially subject the School to concentration of credit risk, consist of cash accounts, which have been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At June 30, 2018, there were no significant uninsured balances.

d. Capitalization Policy

Computer hardware, furniture and equipment are capitalized at cost or at the fair value at the date of 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 was computed using the straight-line method over the estimated useful life of each asset, which generally is between 3 and 7 years.

e. Contributions

Contributions are recorded as revenue at the earlier of the receipt of cash or when a pledge is 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 discount rate. Conditional contributions are recognized as income when the conditions have been substantially met.

f. Revenue – Public School District and Government Grants

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.

g. Donated Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the School. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

- h. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- i. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- j. Contingencies
Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.
- k. Accounting for Uncertainty in Income Taxes
The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2017, the School's initial filing, and later are subject to examination by applicable taxing authorities.
- l. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 16, 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.
- m. 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, 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.

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

Note 3 - Restricted Cash

An escrow account has been established to meet the requirement of the Board of Regents of the State of New York. 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 4 - Grants Receivable – New York City Department of Education

Grants receivable on the contract with the NYCDOE at June 30, 2018 can be summarized as follows:

Per pupil funding:	
Funding based on allowable FTE's	\$1,041,003
Advances received	<u>(1,034,280)</u>
Ending (grant advance)/grant receivable	<u>\$6,723</u>

Note 5 - Fixed Assets

Fixed assets consist of the following:

Furniture, fixtures and equipment	\$182,469
Less: accumulated depreciation	<u>(41,598)</u>
Total	<u>\$140,871</u>

Note 6 - Significant Concentrations

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 38% of the School's total public support and revenue was from NYCDOE for the period from inception through June 30, 2018. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

Note 7- Donated Space

The School is located in a NYCDOE facility and utilizes approximately 10,000 square feet at no charge. As there is no market available for this type of unique space, no value has been assigned and no amounts have been recorded as in-kind contributions.

Note 8 - Retirement Plan

The School has a retirement plan under IRS Section 403(b). All employees who are at least 21 years of age are eligible to participate. All eligible employees may elect to defer a portion of their salary and contribute to this plan up to statutory amounts and receive an employer base contribution equal to 100% of the salary reduction contributions made by the employee for the calendar year, not to exceed 4% of the employee's salary.

The School contributed \$16,000 to the 403(b) plan during the period from inception through June 30, 2018. The following vesting periods apply:

<u>Period</u>	<u>Vesting Percentage</u>
Less than 1 year	0%
At least 1, but less than 2 years	25%
At least 2, but less than 3 years	50%
At least 3, but less than 4 years	75%
4 years or more	100%

**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 Emerging Leaders Academy 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 Brooklyn Emerging Leaders Academy 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 period from inception through June 30, 2018 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 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 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 16, 2018

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

Current Year:

None

Prior Year:

None – This is the School’s first audit.